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**Master's Thesis of Public Administration**

# **Decentralization in Lao PDR:**

**A Case Study of the Effectiveness of Three Build Directive Policy  
on Local Authority**

**라오스의 지방분권화:**

**삼상정책이 지방 정부에 미치는 효과성에 대한 사례 연구**

**August 2019**

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# **Abstract**

## **Decentralization in Lao PDR: A Case Study of the Effectiveness of Three Builds Directive Policy on Local Authority**

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This study is aims to examine the effectiveness of the implication of decentralization among local authorities in Lao PDR. Lao PDR introduced a decentralization policy to the public administration by implementing the New Economic Mechanism (NEM) in 1986. Decentralization is known as the concept of “Three Builds Directive” policy under the Prime Minister Instruction which defined “Provinces as the Strategic Units, Districts as Comprehensively Strong Units, and Villages as the Development Units” that aimed to transfer certain responsibilities and delegate more powers from central government to the local levels.

The scope of this study primarily focuses on the local authorities who are responsible to province, district and village levels; in relation to the performance of the local authorities. The study will examine the roles and contributions of line ministries supporting to “Three Builds Directive” policy implementation in local government levels. In this study will mainly use the official reports and documents which collected by government in 17 provinces, 1 capital. Among the four periods will be discussed, firstly, in 1986 until 1991. Secondly, recentralized in 1991 to 2000. Thirdly, the section began from 2000

to now. During this period, in 2012 to 2014 the piloting period was a main part in decentralization implementation in Lao PDR and the last section is 2014 until now.

The discussion is emphasized the key characteristics as four main areas in the field of designing decentralization; legal framework and administrative capacity, fiscal administration, human resource development and civil participation. Then , another purpose of this study is to examine the strengths, weaknesses, opportunities and threats or challenge faced by government during the implementation decentralization in Lao PDR.

From the operational framework developed for this study. It can be seen that there are positive changes of decentralization implementation during the piloting period. Despite the positive, there are many fundamental issues still requiring to further finding on how central government could apply wider decentralization policy approach in order to support with piloting Three Builds Directive policy through the current situation. To contribute the public administration and strengthening capacity of local authorities to be more effectiveness in kind of better serving service delivery, poverty reduction and socio-economic development throughout the country. In this senses, the improvement have to be matched with many aspects as plurality and diversity of public preferences. Otherwise, all of these might raise the problematic issues of the appropriate balance between national frameworks to local directions. This study is simply proved that the hindrances for Decentralization in Lao PDR were discovered in four characteristics that decentralization can be implemented successfully when these impediments are resolved in different situation, it depend on the background of each country.

**Keywords : Decentralization in Lao PDR, Three Builds Directive Policy, Local Authority, Examine the effectiveness of decentralization implementation in Lao PDR, Focus on four characteristics such as Legal Framework and Administrative Capacity, Fiscal Administration, Human Resource Development and Civil Participation.**

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# Abbreviations

<b>ADB</b>	<b>Asian Development Bank</b>
<b>ASEAN</b>	<b>Association of Southeast Asian Nations</b>
<b>CPP</b>	<b>Central Party Politburo</b>
<b>CLAIR</b>	<b>Council of Local Authorities for International Relations</b>
<b>EU</b>	<b>European Union</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>GOL</b>	<b>Government of the Lao PDR</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>INGO</b>	<b>International Non-Governmental Organization</b>
<b>Lao PDR</b>	<b>Lao People's Democratic Republic</b>
<b>LPRP</b>	<b>Lao People's Revolutionary Party</b>
<b>LUGs</b>	<b>Local Government Units</b>
<b>MOF</b>	<b>Ministry of Finance</b>
<b>MOHA</b>	<b>Ministry of Home Affairs</b>
<b>MPI</b>	<b>Ministry of Planning and Investment</b>
<b>MDGs</b>	<b>Millennium Development Goals</b>
<b>NA</b>	<b>National Assembly</b>
<b>NEM</b>	<b>New Economic Mechanism</b>
<b>NSEP</b>	<b>National Socio-Economic Plan</b>
<b>OECD</b>	<b>Organization for Economic Cooperation and Development</b>
<b>PM</b>	<b>Prime Minister</b>
<b>PCP</b>	<b>Party's Central Politburo</b>
<b>SDGs</b>	<b>Sustainable Development Goals</b>
<b>UNDP</b>	<b>United Nations Development Programme</b>
<b>UCLG</b>	<b>United Cities and Local Governments</b>
<b>UN</b>	<b>The United Nations</b>
<b>WTO</b>	<b>World Trade Organization.</b>



# Chapter 1: Introduction

## 1.1 Background and Purpose of Research

Decentralization has become a requirement for a better public service in Lao PDR. It is one of the most extensive development trends in the current world. Decentralization concentrates on decentralizing power from central government to localities. In responding to the current public demand, Lao PDR has utilized the concept of decentralization to reform its public governance system. However, the decentralization has various forms of implementation and challenges that Lao PDR has been facing since the first phase of decentralization process in the 2000s (Rees & Hossian, 2013, p. 93).

Simultaneously, with the socio-economic development in Lao PDR, the communist party and government cabinet also attempted to develop effective public institutions, in both central and local levels. The new economic orientation has made significant changes within the socio-economic development. To achieve the sustainable of economic growth, the role of central government and local levels are very important. Lao PDR introduced a decentralization policy to the public administration by implementing the New Economic Mechanism (NEM) in 1986. Unfortunately, NEM did not give fruitful result due to financial and human resource constraints.

In 2000, the Government attempted to apply its own definition of decentralization by introducing “Three Builds Directive” policy under the Prime Minister Instruction No. 01/PM which defined “Provinces as the Strategic Units; Districts as Comprehensively Strong Units; and Villages as the Implementation Units”. The instruction aimed to transfer certain responsibilities from central government to the local levels. In general, the central government gave more powers to local levels, mainly to district level.

The main emphasis were planning and budgeting sectors. It seemed that these policy worked well for a decade even it could not be implemented throughout the country.

Years after “Three Builds Directive Policy” enforced, the law on local administration (formulated in 2003) was revised in 2015, which mentioned the principle of the relation of the local administration structure in order to strengthen local authorities to ensure unified working procedure in a more effectiveness in public administration. To support the implementation, two major legal acts were used in this phase such as (1) The Prime Minister Instruction No. 01/PM in 2000 and (2) The Party Resolution No.03/CPP in 2012. These two legal acts aimed to present the strong commitment of government to decentralize partial administration by emphasizing the function of administration at local levels.

There were some positive outcomes from government effort. All of the regulations issued among the implementation showed that the government had clear determination to promote the decentralization policy. One of the policy objectives is to increase the awareness of roles and responsibilities between central levels and local government level. Thus, they can fully utilize their potential in development aspects.

However, these policies are not well-defined to some extent. There are remaining challenges over the interpretation of the government policy approach among public officials, regarding to the meaning of decentralization and demarcation of responsibilities. Therefore, government issued the Prime Minister Ordinance No.16/PM, 2012 (piloting phase), defining the formulation of Provinces as Strategic Units; District as Comprehensively Strong Units; and Villages as Development Units. Then, the Party Resolution No.25/CPP (2014) was issued to support the guidance of the strategy of The Party Resolution

No.03/CPP (2012). Moreover, Prime Minister Ordinance No.34/PM (2016)<sup>1</sup> was issued, aiming to support the “Three builds directive” policy and strengthen the implementation throughout the country. This PM ordinance also authorized the Ministry of Home Affair (MOHA)<sup>2</sup> as a core organization in charge of implementing decentralization policy. MOHA published a guideline No.02/MOHA (2017) to execute the meaning of Prime Minister Ordinance No.34/PM.

Apparently, these legal documents showed that the government has clear determination to accelerate decentralization policy implementation and to increase the awareness of the rights and responsibilities in local government levels. In theory, these policies would support local governments to manage and utilize their resources and administrative capacities. In practice, they did not achieve policy objectives for many reasons. Obviously, questions have been raised such as what kind of function and policy process needs to be considered for delegation power to local levels and how the decentralization policy be an appropriate mechanism in achieving socio-economic potential of the country.

Studies on decentralization in Lao PDR, especially the policy formulation process and policy implementation among central and local government in Lao PDR are scarce. Thus, this study will analyze the implication of decentralization policy implementation, examine functions and

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<sup>1</sup> The enforcement of the formulation applies to both central and local government in Lao PDR.

<sup>2</sup> Ministry of Home Affair (MOHA) is assigned to take lead in cooperation as a secretary of government to encourage of the implementing. “MOHA” is a government organization that act as secretariat to the government at the macro level, regarding public organizational development at central and local levels, civil service management, civil society regulation and management, geography matters, archives, ethnic and religion matters, citizen management and competition-awards matters.



responsibilities of the responsible ministries/agencies, and the study will try to determine the effectiveness of “Three Builds Directive” policy implementation. This study will study through all related legal documents disseminated by the Lao government. More importantly, this study tries to analyze the various policies to enhance the administrative capacity of central government and local government and its accountability line. These answer would appear as a good references for the following steps of implementation as it remains still in a critical debate. The study will go through three steps as followings:

- To examine the substances of “Three Builds Directive” policy from the legal documents issued by Lao government from 2000 until now.
- To pinpoint all issues and challenges in policy formulation and dissemination of the policy
- To analyze the effectiveness of the implementation “Three Builds Directive” policy in local authority levels.
- To figure out the SWOT analysis and recommendations.

## **1.2 Scope of Study**

The scope of this study primarily focuses on the local authorities who are responsible to province, district and village levels. In relation to the performance of the local authorities, the study will examine the roles and contributions of responsible line ministries supporting to “Three Builds Directive” policy implementation in local government levels. This research will use the official reports and documents collected by Laotian government in 17 provinces, 1 capital; Those reports were combined from the representative of each province in reporting the implementation of decentralization among their provinces. This research will examine the information of the ongoing process of decentralization in Laos.

## **1.3 Research Question**

1. How has “Three Builds Directive” been transferred to local authorities?
2. What are the strength, weakness, opportunities and threat, challenges that government faced in the implementation of “Three Builds Directive”?
3. What factors should the central government use to apply for successful decentralization?

## **1.4 Significance of the Study**

The significance of this study is to examine the challenge faced by Lao government during the implementing of decentralization throughout the country. And this study will find the hindered factors within local authorities and central government. In addition, this study will contribute to the process of policy planning how to improve the scope of framework of central government in kind of delivery and issue the decentralization policy. More importantly, this study will be a resource for future research related to Decentralization field.

The findings of the study are necessary for government in charge to further develop policies to its line ministry to strengthen the ability of local authorities in local areas more effectiveness, as well as to make sure they can deliver the service to citizens. This analysis will give guidance to future planning in order to conduct or evaluation after implementation.

## **Chapter 2: Literature Review and Conceptual Analysis**

Decentralization is used to describe the broad range of public sector organization in worldwide. Beside this, it is the transfer of authority and responsibility for public functions from the central government to local government. In fact, decentralization has been widely implemented in many aspects. Thus, this is a complex, multifaceted concepts, different types of itself meaning because they have different characteristics and conditions for implementation. In general term, it is difficult to come across a country that has commenced only one of the different types of decentralization. Therefore, centralized and decentralization in many countries, also seek to find an appropriate or mix terms.

This chapter will firstly present the various definitions of the concept decentralization including its related terms. Secondly, it will review the former studies of decentralization in order to identify the various purposes and backgrounds. Then, this chapter will examine the factors to be consider in decentralization and explain in its characteristics. Lastly, the local government and function transferred as well as an essential elements for decentralization are also included in this section.

### **2.1 Decentralization Definition and Its Related Term**

#### **Defination of “ Decentralization”**

One of the most development trends of the recent world as in developing nation is the devolution of government responsibilities which from the central government to local levels, that process referred to a decentralization.

In recent year, Decentralization has appeared as a mechanism to address an extensive issues in public sector. In reality, it has been broadly implemented in many regions around the world for many years. Surely, the meaning of decentralization remains unclear enough. Until now, the definition of decentralization has been determined as many aspects which related to the Goal of each country policy (Rees & Hossian, 2013).

Even so, the principal of decentralization defines to the transfer among authorities and responsibilities which come from high levels to local levels of government. In order to support efficiency and equity of development activities, delivery of policy , local participation and democracy. So, the meaning of it were variously determined by many scholars and organizations as below:

Decentralization means the devolution among power which from central to local government that promoted as the way to rise local more equal in kind of distribution in society (UNDP 2004). Moreover, some scholar instructed that decentralization is an essential treasure of confusion. Decentralization represents to many process distinction, it's occur in isolation to some level and have obvious outcomes. Beside this, the main two terms of decentralization were administrative decentralization and political decentralization (Hutchcroft, 2002).

Decentralization is often associated with democratic reform among civil societies strengthen .In term of democratic reform, decentralization advocate assume that bringing the state closer to people and allow more public participation on decision-making in order to ensure a transparency and accountability (Diamond, 1999). One aspect of efficiency argument contends that decentralization planning and service delivery can identify as well as satisfy local needs and population (Burki, Perry, & Dillinger, 1999)

According to (UN, 1997) “Decentralization is a transfer of authorities and responsibilities of performance a role which from the top administration of

an organization or the central government level of an institution to local level units”; in particular, on public administration, that means the typical means “the transfer of services and power to local levels” However, a difference between the Anglo-saxon terminology and the French terminology. In the Anglo-saxon terminology, Decentralization means “away from the center”. It will refer either to a form of de-centralization or a form of devolution. In contrast, in the French terminology, decentralization represents to a form of decision-making by an autonomous authority with juridical status and its own resources. The French term “decentralization” clearly means devolution. Similarly, (Agrawal, 1999) argued that Decentralization is normally represented to the transfer of power from central government to lower level in political-administration and territorial hierarchy which noted that the transferring power as a term of administrative decentralization.

Additionally, regarding to (Adam, 2003) defined on decentralization in Asia that focus on four aspects on the process 1) Administrative decentralization; 2) fiscal decentralization; 3) political decentralization; and 4) new development administration. Continuously, support Adam (2003), (Cheema & Rindinelli, 2008) considered four general terms of decentralization namely: Administrative decentralization, fiscal decentralization, political decentralization and economic decentralization.

**Political decentralization** is basically defined as a term of decentralization which increase the participation among citizen as well as the selecting representatives via election, devolution of power from authorities to local levels especially in making the public policy, decision-making and social participation and financial resources that influence the making decision in politics and devolution takes place.

**Fiscal decentralization** means a level of resource rearrangement to Local government which means fiscal cooperation in public revenues and share among all Levels of government, tax collection that managed and guaranteed for local government and market fees.

**Administrative decentralization** means the transfer of decision-making in the area of Authority, responsibility and Financial resources in public service from central government to other lower levels of government that redistribute to another units such as semi-autonomous (Public and regional authorities).

In reality, Decentralization is the most significant approach in term of shifting conscientiousness from central to local level. In this regard, the basic modification in structure in which political, social and economic dimension are defined by many scholars that have various meaning terms in decentralization (Cheema & D.A, 1983) Thus, Decentralization has various terms such as decentralization, devolution, and delegation which has been widely implemented for the public reforms in many countries in different aspects. In order to advocate the meaning of it were determined as below:

### **De-concentration**

De-concentration is a process that central government transfer the responsibilities to regional branches but without shifting any authorities. That means central government establish the field branches then the authority remain depend on the central government. De-concentration is determined as one of the weakest forms of decentralization. Normally, it is often used in the unitary state.

Many scholars have given various definitions of De-concentration. (Gregersen, Contreras-Hermosilla, White, & Phillips, 1999) said that de-

concentration is an administrative decentralization that mentions in decision-making authorities in kind of financial and management among level of central government. In this sense, there has no exact authorities transferring within levels of government. It will involve only a shift of responsibilities from federal forest service officials in capital city to province, district and so on. Shortly speaking, de-concentration is a shift of responsibilities which from central government officers in the capital city to local levels as provinces, district and village. So, the local levels can perform local administrative capacity under the supervision of central government in line ministries. In another meaning, it relates the delegation of decision-making among local authorities in the executive of central policies.

De-concentration system, the decision-making is belong to central government through branch located at the diverse level of the territory. In order to gather citizen to the service of government more closely at the same time these will shape the decision autonomy in kind of government resource and management. Nevertheless, it has no legal or finance autonomy, as it has been operate within financial, accounting and regular framework of central government.

## **Delegation**

Delegation states to the situation in which the central government transfers responsibility regarding to decision-making and administration of public functions to local government. Similarly, to the above two related terms of decentralization, Delegation is considered as more widespread form of decentralization. For instance, (Rees & Hossian, 2013)defined that the generally involves “The transfer of the responsibility for exactly function to organization external the regular bureaucratic structure” though final responsibility is retained by the central authority. In addition, delegation is

mentioned to the transferring among executive responsibility for specified functions to other public organizations outside normal central government control as provincial or local government agencies” (Shah, 2006).

The mentioned definition in above, the author has focus on the delegation, it means local government are not wholly controlled by the central government but are accountable to them. As well as, it refers to the transfer of decision-making among government and administrative in authority in order to clearly define the tasks in organization. They are indirectly control under the government or independent.

## **Devolution**

Devolution happens when central government transfers full authority for decision-making, finance and administrative management to local government. At the same time, Devolution is also considered as one term of decentralization; Similar to de-concentration. Practically, many countries have combined these three types. Especially, emphasizing on de-concentration, delegation and devolution of political, administrative and fiscal authority to the elected local government.

According to (World Bank, 2000) devolution mentions to an action of the transferring of decision-making from one level of government to another. These power can be divided by two ways: first is transferred from lower level to higher level of government as federation case; whereas another is transferred from government to entities of civil society. Additionally, (Sayer, 2004) argued that devolution is a transfers of right as well as assets from the central to local levels. That means these processes happen among the national which set up the limitation of any decentralized or devolved forest management occurs. Furthermore, (Edmunds, 2003)supported the idea of Sayer,2004 that the



devolution as the transfer of natural resource management to local both individual and institution which located within and outside government.

Even though there are many definitions of devolution in various ways by scholars and researchers. Devolution is the term of giving power which from central to local government or authority. However, this research is mainly focused on de-concentration or the effectiveness in decentralization in Lao PDR. Before getting into detail, it is necessary to understand the background of decentralization.

Summary, the above literature has shown that there are different definitions of decentralization and its related term in different ways. Nevertheless, the final result is to share the power in the area of decision-making with the aim of public service delivery in effectiveness aspects. However, this study is mainly focus on the relation of central and local authorities as the main actor and essential elements for decentralization. Therefore, it is necessary to understand the local government and its function transferred. In the next section will examine the discussion among local government.

## **2.2 Local Government**

Generally, Local government serves as a two aspects, First of all is the administrative aspects in kind of service delivery; and the second aspect is to represent and involve citizens in local public needs. Local government is a process of administrative function among local levels in order to connect within local government structure. To understand more regarding to functions of local government, it is important to consider the typical structure as forms of the basic framework which in local public policy is determined and implemented. Therefore, there are many scholar and researcher has defined the compositions of local government and their related activities.

Regarding to (Olowu, 1988) remarks Local government refer to the product of devolution as a dimension of decentralization, the two approaches in definition of local government in the literature is following this: first approach is regarding to all national structures under the central government and second approach is circumspect in kind of local government which identify as defining characteristics. All of these characteristics normally emphasize on the following five features: Legal personality, Specified power to perform a range of functions, Substantial financial and staffing autonomy subject to restricted central control, and effective citizen participation in local.

Another prospective from Gomme (1987:1-2) states that local government as a part of whole government of state authority, but self-sufficiently of control by state authority in resident, as well as property in definite localities. That means localities have been formed by communities as a common history and interest. Gomme seems to focus on independence which local governments are not independent form central government control. They enjoy relative autonomy regarding to the level of responsibilities.

(CLAIR, 2012) Determined the local government such as prefecture and municipalities refer to bear board responsibility for performing administrative functions in the localities. These include: Local roads, Forest and river conservancy, public health centers, vocational training, police, high school, elementary and junior high school, hospital, family, residence registration, public assistance and so on. Additionally, (Loughlin, 1996) categorizes four characteristics of the modern local government. First, local government takes responsibility for an extensive range of functions. Second, local government has a broad option of responding to local level needs. Third, local government owns an independent power in taxation. Fourth, local government is focus on periodic elections. All these are the purpose to develop

local democracy, elected local government should be functionally and also financially independent from the central government.

Thus, Local governance involves a set of institution, mechanisms and processes through citizens and the groups that can coherent their interests and requirements. And exercise their rights and obligations within the local level. The building of good local governance are include: citizen participation among the key actors at local level, capacity of local actors across all sectors multiple of information, institution of accountability (UNDP, 2004).

## **Function for Local Government**

According to transferring functions of local governments, it considered as one of the most essential features for decentralization. In this meaning, the local government cannot perform their role to meet local needs without appropriate functions. From this point, the author will review the functions for local government transferred from central to local government in the worldwide both Asia and European countries in the following sections.

The transfer functions to local government are considered as the one of the most significant features within decentralization. Without proper functions, the local government cannot perform their job to reach the local needs. Thus, the author will review the local government functions transferred among central government in developed countries as European countries.

In 15 European countries, a lot of functions have been delivered to local government. Basically, these functions can be divided into “common and less common”. In this section, the author will point out the common functions for this research. First of all, it has construction and upkeep of primary school, local planning, and home for elderly, water supply. In common functions can be divided into three levels, namely the functions carried out by local government 15 countries (the most common), the functions undertake by local government

in 14 countries (more common) and the functions carried out by local government 12-13 countries (common).

Another prospective of (Kim, 2011), basically, the function of local government in the world release two different types of functions: 1. shared function and their own functions, 2. Classification of local functions. In many countries, Shared functions means not only local government but it concerned about central government. In this relation, the central government is included the process of shared functions in various ways. Firstly, the central government offers financial resources in order to carry out the shared functions. Thus, under the firm central supervision among central government are often pre-examination or ex-post legal supervision and more. Secondly, the local government gives them in the field of technical assistance on shared functions. Thirdly, the central government subjects the guidelines in detail for applying of shared functions.

Flowing this, in classification of local functions that means local government functions can be classified into four different clusters which depend on the nature of local functions (Hollis et al.,1990) such as need services, protective service, amenity services and facility services. 1) Need service refer to the service providing to citizens. For instance, education, housing benefits, personal service and so on. Sometime these kind of services rearranges financial resource among the territorial authority. 2) Protective services means he supplied for the security of citizens. In this relation, the main features of these is the services for citizens without any restrictions. Thus, there is an issue between free riders. The good example are police and fire services. 3) Amenity services stand for the provided service that have to address with the needs of local peoples as a basic standard. In these services, it embrace highways, street cleaning facilities, consumer protection, refuse disposal, environment health and so on. As well as the sustainable economic development and local planning.

4) Facility services define as those service which citizen's use in the case of they may really want. It is not the exclusive service for any private sector that provide for them. For example, libraries, museums and arts, etc.

To make more emphasizing, under the decentralization with integration model, the role and functions of local government are a rule that defined both the constitution and in primary legislation. However, local governments are an implementing institution of the central government. In another word, local chief executive are not only perform as a leader of local government but at the same time implementing assistance of the central government. Moreover, they have to follow central directive and mandate without any option (Kim, 2011).

In another model as decentralization with separation model, (Kim, 2011) also states that Government functions are obviously allocated within the central and local government. Additionally, local government are granted more high level of autonomy so they are able to carry out their whole functions with their own resources. Thus, Local government are a political entity among local levels which use the power in order to tax collecting that cannot go beyond the baseline that defined in the law.

To summary, many countries have different views regarding the functions of local government according to the culture, history, background and so on. In some functions, it need to be shared not merely within local and central government. And some countries has been debated about the functions before the process of transferring or delegating to local government. Even though, the transfer of functions will be reach the goal or fail to reach.

However, in this study is mainly focus on the relation of central and local authorities in presenting the decentralization policy. Before going into detail, it is necessary to understand the background of decentralization by review the previous studies of decentralization.

## 2.3 Review of Previous Studies on Decentralization

A decade ago, Decentralization has long history and it was introduced in some developed countries. Beside this, it was developed through in different periods of time and several aspects in each country. The estimates of the number of decentralization experiments ranged from 80 percent of the world that effective to all of them (Manor, 1999).

Decentralization become more to local government and the local people as we as fostered greater the ability of local autonomy. So this study finds out the effectiveness of local authorities and decentralization implementation that make more satisfied and more local autonomy to local people delivery. Since then, the reforms of decentralization have been announced in many countries as France, Cambodia, Indonesia, Japan and South Korea and many countries. It has developed through many purpose. In this study, the author will focus on the period of the 1960

until now in some developing countries that author believes the aims of decentralization are similar to the current situation in Lao PDR.

According to (Bardhan & Mookherjee, 2006) states that In the 1960s the concept of decentralization was introduced in Latin America, Africa, and Eastern Europe. It seemed that the number of decentralized countries have steadily increased among the world, Asia region is also included. Decentralization has been used as a development tools through many periods of time and also different objectives of each stage. In the area, it can be set into three stage: 1) from the early 1960s (the earliest stage, 2) from the mid of 1970s-1980s (the second stage) and 3) from the early 1990s to now (the most recent stage).

From the early 1960s (John & Stephen, 1999) argued that decentralization was used for helping colonies in order to expansion the independence. Beside this, mostly it focused on in the area of politics making and respond to the growing of the demands for goods and services after the colonies gained the independence.

In the mid of 1970s-1980s Most of the countries around the world were experimented with decentralization into their policy reform. And again, John and Stephen (1999) emphasized that among donor communities recommended previous colonized government in decentralization for promoting democratic development. Likewise, (G.Cheema, 2007) mentioned that decentralization deals with de-concentrated the structure of hierarchical government and also bureaucracies. Form the beginning of the mid-1980s, decentralization is concentrated on political power sharing, democratization and market liberalization. Beside this, the donors communities started to pressure the government among developing countries to initiate the reform of decentralization for promoting the civil society, encourage the expansion of democratic institutions and to respond to any kind of group of people. In this meaning, to develop local or regional self-government with greater autonomy.

During the early 1990s, according to (G.Cheema,2007) mentioned about the failure of authoritarian regimes and a quickly moving in the field of market, economic and democratic principles in the central and Eastern Europe. That means these countries have developed with a renewed interest in decentralization. Additionally, John and Stephen (1999) have identified that there was a re-evaluation within economic development and the role of the state in authorizing economic growth. Most developing countries brought forth a new idea that the function of central government were to provide infrastructure, promote human capacity and fiscal Resources. Moreover, (G.Cheema,2007) have similarly identified during the 1990s, decentralization was well-known as

a way of opening government to public participation. Since then, the concept of decentralization has changed to government decentralization. Thus, decentralization studies changed the contents of theories and concepts to the implementation process in various policy ways.

Shortly speaking, there are many advantage regarding decentralization all around the world. Firstly, decentralization offers efficient distribution of resource as local government are getting closer to the citizen. Secondly, Local authorities easily access the information in kind of public needs as well as central government. Moreover, local government are more flexible according to service providing and it will allow them to choose the appropriate public service which related to current situation of the local condition. Another advantage, decentralization concept may find some gap of coordination among local unit and central government problem solving.

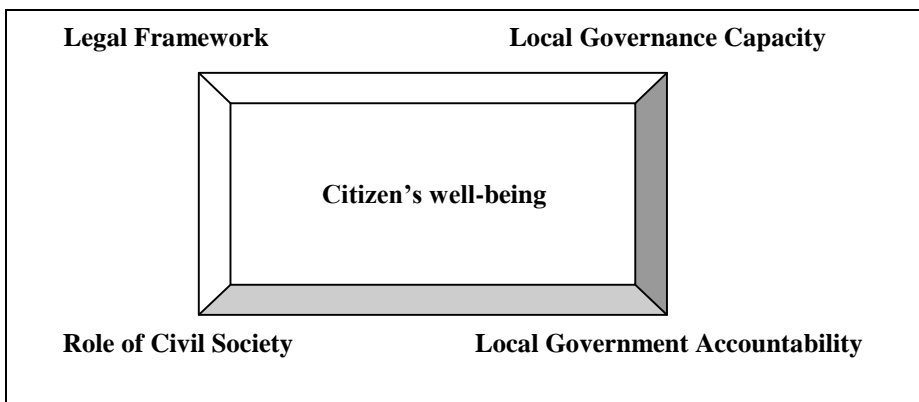
Even though, decentralization was developed and applied in many aspects for many year, it was not definitely easy to implement in every countries. Since the spreading, it is important to identify the different in duties and other administrative capacity factors in local government. For instance, human resource insufficient, role inequalities and limited of experience background. Thus, the author pays more attention in order to explore the factors under the procedures as well as more emphasize the criteria to analyze decentralization. In this concern, some conditions for successful decentralization were only found in the studies which has conducted by Unite Nations. Therefore, the author will discuss these conditions in details as below:



## 2.4 Review of the Factors to Consider in Decentralization

There are key characteristics to consult with an ongoing process of decentralization and its Conditions for the effectiveness of decentralization. The discussion emphasized four main areas in the field of designing decentralization, in these sense, all of these characteristics must be considered as the Significant tools in order to study on decentralization in central and Eastern Europe. Therefore, the author selected the four conditions initiated by (UN, 2000) to analyze decentralization in Lao PDR. As following in detail below:

**Figure 1: Framework of what to include in democratic decentralization**



Each of the above-mentioned characteristics is discussed in detail as below. In order to examine such as the design of decentralization that may classify the decentralization system that can help the central and local government in implementing the concept of decentralization policy.

### **The Legal Framework and Administrative Capacity**

The legal framework and administrative capacity are the main point of any reform mostly in public sector. These play significant part in order to shape the policies process in what country needs to achieve in many aspects. Similarly, decentralization reform, the legal framework and administration of process are

the primary and main matters that have to be considered. According to (UNDP conference 1999) mentioned among the scholars and researchers argued that the legal framework and administrative should be properly developed. Thus, in this section will tries to discover the role of legal framework and administrative capacity in decentralization. After that, author tries to specify some issues that caused within legal and administrative capacity by reviewing many literature.

To start with this section, the legislative framework and administrative process helps control the steps of the implementation of decentralization reforms. Thus, the scholars as well as politicians in above (UNDP conference 1999) summarized that decentralization is more complex issues which need a series of steps and more careful adjustment.

In decentralization, the legal framework and administration might become the one of burdens. In some developing countries, in the field of decentralization properly not work well because of the central government used the legal framework as a burdens to preserve their power. To get more understanding, In South Africa, municipalities expected to have power that over the functions delegated by the central government. Unfortunately, legal framework is not assigned financial power, thus these municipalities have only been able to perform those transferred functions by stealth (Heymans, 2006).

In the area of local administration, the provision of significant services which offer both central and local government has been in the highlight for many years. It seemed that among official caught up in the snare, they have become under the poor performance and unmotivated officials. More than that, there were some engage in corruption and another factors is they are not qualified enough to discharge their duties. Thus, (Burger, 2010) propose that there are many reasons in kind of poor performance and service delivery, rampant corruption, discrimination and distribution of “comrades” to positions

in which they are not qualified within local government structures. These led to the ineffective establishment of simple services to the citizens in local levels.

To be more concise, Lack of organization capacity in local government might be a serious issues. Particularly, in the area of developing countries. Normally, Local government in developing countries has not enough capacity in management, technical and financial capacity in order to plan and proceed policies and public service delivery. Giving by (Bardhan.P, 2002) argued that the type of decentralization literature has various levels of government. In this regard, mostly local government in developing countries have similar levels of administrative ability. Nevertheless, this assumption is questionable, in term of central bureaucracy more attracts from talents and qualified people, and issue is mainly appears in many developing countries where qualified of official as well as those handling basic tasks such as accounting and record-keeping, it seemed very low at the local levels ( Bardhan 2002, 189).

To sum up, Shah 2006 defines as in developing countries the legal framework is needed for decentralization. Even though it was considered as a blockade to defining some functions. Without the basic principle, laws and regulations, It means they do not know where and how to start. Hence, to beginning with the basic legal framework is properly significant stage for decentralization in developing countries.

## **Fiscal Administration**

Finance is considered as a priority feature to complete the implementation of decentralization. In general term, it is widely believed that finance can ensures local autonomy, equity as well as development aspects. Many countries, the use of approaches are different in each transferring resource which from central to local government. These might be the transfer of taxation (local tax or allocation tax), including the granting money from local

government system. Then, the next section tries to explain the terms of financial decentralization which has been used in various prospective.

Among different levels of government with intent to transferring some of the fiscal decision-making which form central to local levels. Fiscal administration in decentralization rules normalize in four areas such as: 1) expenditure assignment, 2) revenue assignment, 3) intergovernmental transfers and 4) sub-national borrowing. In these sense, expenditure autonomy goes beyond simply assigned service delivery responsibilities to local governments. This autonomy defines in the eyes of citizens. Revenue autonomy and transfer systems explain the funding level for local government to deliver these service delivery.

According to (Rodden, 1999) fiscal administration means the share of total public revenues and expenditure among local government. The main focus of financial decentralization is the nature of international transfer and the differences in the revenue in kind of revenues creating capacity across influence of different income levels. Thus, when talking about financial decentralization, it is important to discuss about the available revenues as well as expenditure of local government. These resource can be shifted or delegated in different forms.

In summary, financial decentralization mainly focus on the revenue and expenditure of local government. Normally, the central government have to share its income which form many sources and give the local government the chance to earn their own income by themselves through taxation.

## **Human Resource Development**

Human resource development is recommends as a process of developing human expertise through training , administrative and organization development in order to improving performance. These is a priority areas in any reform to be consider for development terms (Swanson, 2007).

Decentralization reform is no concession to this. In kind of capacity to manage local responsibilities is an issue among local government. Hence, in this section tries to examine the main factors in human resource development aspects.

According to (UN, 2000) Human resource development supports local government in personnel administration, for training and structure of careers. That helps to encourage the ability of local government staff. In this report mentioned that there are three types of people in each targets; namely elected representative and appointment, core professional staff and civil society group or citizen. Who involve and participate in decision-making as well as monitors and evaluators of local government performance. By the way, these group can be together for any kind of training development.

The demand for training for public service has long been neglected. It was only in the late 1960s since government started to discover the need for service training for public officials. At the time as administrative reform was on the schedule and management methods. Training is a tools for improving public sector for the achieving its goals on the own professional and personal development of administration. (Stredwick, 2005) Defined that the most significant role of human resource is to encourage official improve their ability which through training and development. By doing that, to improve the performance within organization. Official training and development has become the main key in order to develop official performance more effectiveness. Beside this, Marquardt, (Naris & Ukpere, 2009) highlight the essential of official training, development and the consequent benefits both public and private organization. In long-term development. Within organization will depend on well trained officials who can perform and reach the goal as well as successfully activate in the global environment.

Mani (2003) mentioned several problems among local government capacity in developing countries. Mostly, in less developed regions have the

greatest issues in the field of recruitment of qualified people and weak management capacity. In many developing countries faced a situation of central government attract the qualified human resource while local government function with less qualified personnel. Furthermore, in private sector engaged in development that attract skilled people away from government by offering higher pays. In the area of skills, local government personnel trend to have limited skill and less experience to distribute in human resource development. By this reason, they have poor qualification in planning management with another organization. For instance, NGOS and CBOs at the same time in participatory planning with communities; Somehow Local government in the low level lack of the capacity to classify threats development aspects, limited mandate and capacity for conflict resolution.

Another factors in kind of human resource development in developing countries is a shortage of trained staff. For example, the report of (World Bank, 2008) states that decentralization in Africa country is faced a challenge in shortage of trained personnel. These leads to lack of skill and qualified staff among local governments. In this report mention that each staff member have to response for over 100 people. So, senior civil servants were dispatched from the state to local government.

Summarily, Human resource development benefits local government to train and strengthen self-government in their field. It can also help to promote capacity building of local personnel and structure of local government. Though, the number of well-trained staff in developing countries is still limited. While, the ratio of the staff to the population is not appropriately calculated. For this situation, due to the lack of financial resources as well as the UN study has showed that civil society group and citizen have to upgrade their ability to reach the good partners and evaluators within local government performance. Thus,

the next section will examine the civil participation in terms of the role and issues.

## **Civil Participation**

Civil participation is determined as individual and action that identify issue of public concern. It has many features but the most basic sense is about decision making. Beside this, One of the general definition defines the civil participation is a process of open, accountable through both individual and groups among communities in kind of decision-making.

Regarding to Civil participation in governance occur many different definitions among various perception. These includes a process of open, accountable with individual and groups in society in the area of exchange views and influence decision-making and democratic procedure of engaging citizen to play the role in planning development. Additionally, civil participation is one of the main significant policy instrument which through participation, consultation and idea sharing, at the same time, strengthening the relation between citizen and government has clear priority for democracies. In order to encourage public participation in government. These is important to develop the process of decentralization as an appropriate alternatives for distributing the responsibilities and powers in different levels of government.

In this regards local people can state their needs when decentralization influences their decision space. At the local government level, the most widely used methodology is a bottom-up planning approach that encourage wider community participation in setting priorities for local level development. Therefore, civil participation is the one the main success factors in decentralization. For more understanding the role of civil participation in the field of decentralization, this section will review a UCLG report in 2008.

To start with civil participation in local governance involve ordinary citizen , accessing their needs and participating as well as gives them a significant opportunities in development and another activities within community. Regarding the first global report of UCLG (2008) mentioned that local participation in local government of the Asia Pacific Region has been gradually essential. The basic role is participation in election. For example, in the field of direct election are held for council and mayors New Zealand, India, Japan, Indonesia, Philippines, Thailand and Korea.

Additionally, Civic participation is not simply focused on voting in the field of election but it also play important role in structure and process of decentralization (UCLG,2008). Decentralization provides a structural venue through local people that they can participate and exert more influence in the field of formulation and process of policy implementation as well as the determination of their development terms. If in case of the democracy, it means the rule of people then political decentralization in facilitating participation among citizens in relation of decision-making and promote democracy.

The argument that decentralization improves resource allocation, accountability that local governments have better information than the central government in terms of the needs and preferences local citizens. Citizen's participation in service delivery can promote government accountability by increasing citizen participation and awareness of actions. For instance, (Fiszbien.A, 1997) initiate that community participation increased the demands for effectiveness local government and forced government accountability in Colombia. In that sense, participation has made local authorities more accountability to citizens by increasing inadequate public choices, As a result, local government started changing their personnel to make them more effectiveness. Thus, (Litvack, 1999) claimed that it is important to recognize



that decentralization can itself increase the opportunities for citizen participation.

Local participation is often presented as an approach to better service delivery with focus on aiming and strengthening demand for good governance (PACSA, 2006). It is generally accepted that there are two main ways for inducing local participation; community development and decentralization of resources and authority to local governments. The development of community represents the Demand side, whereby local communities are better educated and able to request more reactive public services.

To conclude, civil participation in local governance include regular citizens that influence their own needs and participating in kind of planning and budget monitoring. Thus, it is vital to improve public resource management and reduce corruption as well. In decentralization, Local participation is important in the sense that it create institution such as local council and so on. However, the effort to develop local participation has faced many challenges, somehow due to the party-political phenomena or other involvement from local bodies.

After reviewing of the literature, there are many significant points of authors emphasized on the meaning as well as the connection regarding the implementing of decentralization that relation between central and local government through the policy implementation. In order to make decentralization run productively, some basic needs to be addressed, the primary role would be balancing decentralization policy.

To get more meaning, First of all, central government is required to provide policy direction regarding local government responsibilities and sub-national performance measurement. Beside this, the central should define the minimum standard of policy implementation. Moreover, transferring the technical and fiscal resource to encourage local government and guard's limitation of overspending. As well as, central government should be consider

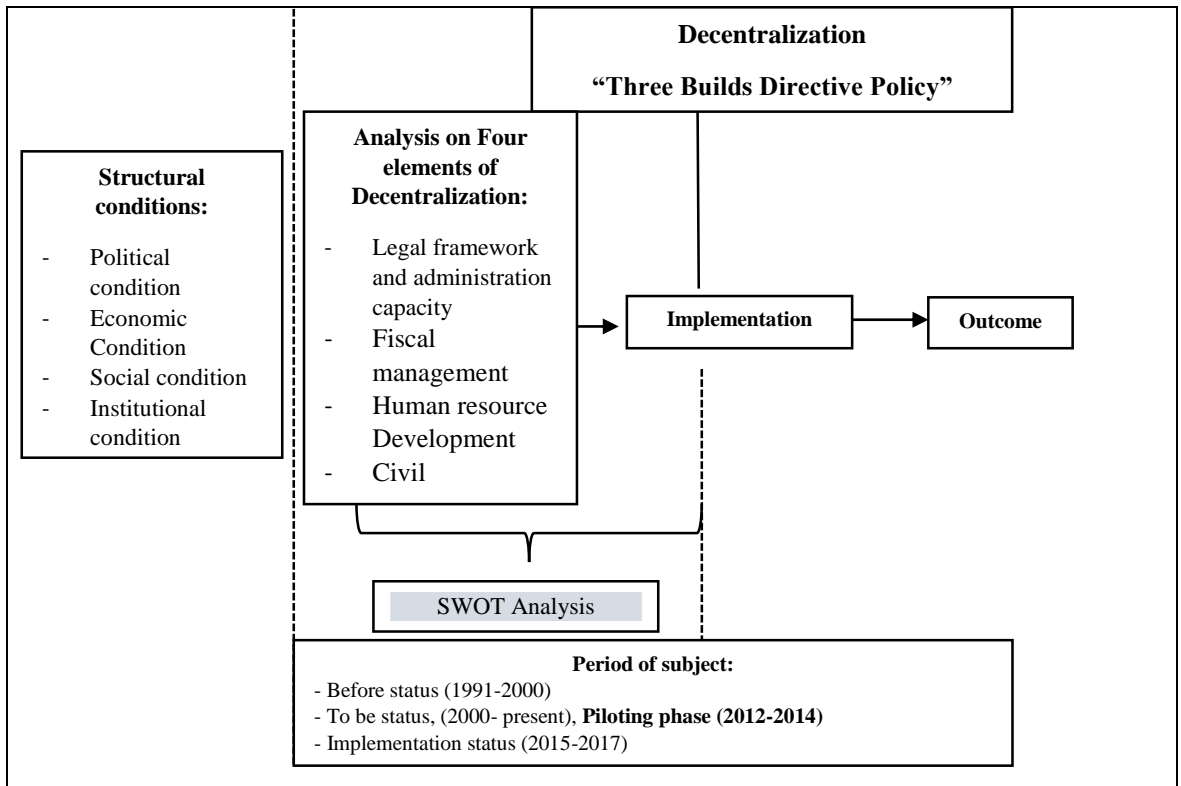
and find out the appropriate legislative framework that can be apply on the field. Secondly, even the meaning of policy has multiples aspects, formulation and implementation in different country and various contexts, but there is common essence in kind of policy process and policy outcome in order to reach the objective. For instance, strengthening local authorities through transfer of power under the policy support and resources form the central. Importantly, the purpose of decentralization is not to reinforce local power or to preserve central power but basically to ensure the best service to the citizen as well as public's trust and capacity building on local authorities more comprehensive.

## **Chapter 3 : Analytical Framework**

### **3.1 Framework of Study**

The framework of this research will consider an analytical frame in dealing with the effectiveness of “Three Builds Directive” Implementation among local authority in Lao PDR. Focusing these characteristics namely framework and administrative capacity, fiscal resource, human resource development and civil participation which related to effectiveness or ineffectiveness of “Three Builds Directive” process. According to the observation, analyzing all these characteristics can allow the author to figure out the factors which effect to decentralization policy in the past as well as in ongoing process. Thus, the author draw the scope of analytical framework in order to use as a guideline in this research.

**Figure 2: Analytical Framework**



## 3.2 Research Methodology

In purpose of this research is to explain how Laos's government implemented the decentralization policy and the process and how central and local government transferred the effectiveness procedure under the legal documents which has issued by government. In order to find the answer the author shall use both descriptive and explanatory qualitative analysis. The primary source was offered by using the survey questionnaire in the areas of key officials/ organizations in order to identify their opinion on the effectiveness and factors that they are facing during implementing. To be more critical, the information was obtained by the author through the observation techniques based on the work experience in the field of implementation from

the year of 2012 until 2017 while working in a Ministry of Home Affairs. Thus, this enabled her to observe the actual process in kind of the policy process, framework, and evaluation of decentralization policy among Lao government and Ministry of Home Affairs on behalf of the assigned to take lead in cooperation as a secretary of government to encourage of the implementation of decentralization of Three Builds Directive throughout the country.

Moreover, the secondary sources and data collection technique in this study were collected from Lao government's official reports, decrees, resolutions and other legal acts of the political party both in English and Lao language. And Central government report documents collected in 17 provinces, 1 capital. Only "Local authority" were involved in this survey. In order to utilize the last objective, as determining the strength, weakness and challenges faced by the Lao government in the process of decentralization. In this sense, the basic SWOT analysis will be employed. The use of SWOT analysis will be the significant reference in further recommendation in the field of improvement the legal documents which aim to support the decentralization in Lao PDR. As well as finding and broaden the references for the recommendations to be made.

### **3.3 Study Sample**

In this study, regarding the decentralization "Three Builds Directive". There are three keys government organization that dealing with policy implementation. Namely, the Lao People's revolutionary Party (LPRP), Prime Minister Office, all targeted ministries but in this study will emphasize the Ministry of Home Affairs and Ministry of finance. For the study sample and outline, on this study will use simple of purposive sampling to get the information among central and local officials who are working in the field. Especially, Ministry of Home Affairs which is the core organization that gathering the tasks among all ministries in Lao PDR.

### 3.4 Data Collection

Data collecting through in the process the triangulation will be a productive technique to get the primary data in this research. There are concluded survey questionnaire. Regarding, the questionnaire will use the terms of “What, How and why”. These will be designed to measure how the implementing of decentralization and local authorities capacity in Lao PDR as well as explore whether the three build directive can be the productive mechanism in long-term. The survey questionnaire were developed both in Lao and English, to understand and Communication more easily understanding the content of the research to all of the participants who contribute the information. The secondary data collection were collected from Lao government’s official reports, decrees, resolutions and other legal documents both in English and Lao language.

In order to pursuit of satisfy the purpose of the study, the study will be employed in following steps:

- Central Government:  
Documents of government
  - “Three Builds directive ”policy (under the Ministry of Home Affairs)
  - Central government report for implementation on “Three Builds Directive” policy
- Interview the official who work under Department of local administration, Ministry of Home Affairs who were in charge of this field.

### **3.5 Methods of Interpretation and Analysis of Data**

The data received from various sources had been firstly organized into separate arrangements systematically in order to reach the primary objective. Later, the information was analyzed. The description study with comparative terms is the main aspects to find out major changes among each period. The grouping of response which from percentage and other charts is needed to examine the comparative outcome from legal documents and table interpretation. After that, the strategic planning tools as SWOT analysis are applied in all sorts of circumstances; in order to capitalise the strengths, overcoming weakness, exploiting opportunities and countering threats which from the facts discovered through long-range.

## Chapter 4 : Country Background

### 4.1 The Lao PDR

The People's Democratic Republic of Lao (Lao PDR) established on December 2, 1975; landlocked between Myanmar, Thailand, Cambodia, China and Vietnam in the core of Southeast Asia. Population around 7 million over a surface of 236,800 square kilometers. Lao PDR stands among developing country and unique country which has a multi-ethnic and different system of administration from another countries.

Since the establishment of the Lao people's democratic Republic in 1975, country had been leading by the Lao People Revolutionary Party (LPRP), and the government run by the council of ministers. After the new regime was established, the Party as well as the council of minister had made every effort in order to protect and develop the country. The most important change in the development arena of the Lao PDR has been started in 1986, when the new economic orientation had been introduced and the country was open to globalization. The administrative institution comprise of the National Assembly, the government, the people's Court and the office of the public prosecutor. The Lao front for National Construction and other mass organization.

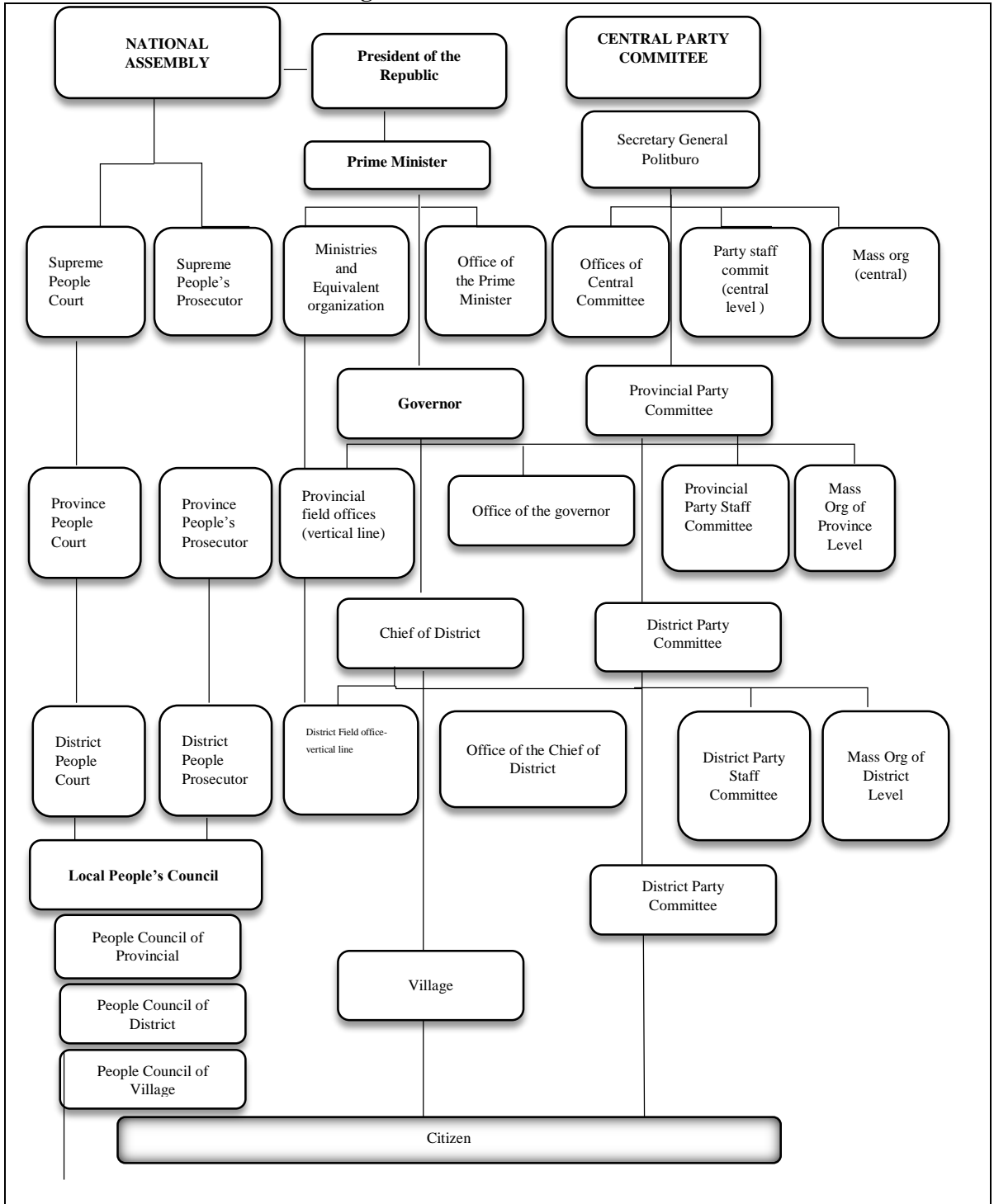
The political and administrative system is organized to socialist principle under single party known as the Lao People's Revolutionary Party (LPRP). The LPRP holds on its party congress every five years to set the goal for next five years (The Five-year National Socio-Economic Development Plan). The first Congress of the party was held in 1955. Currently, Lao PDR is in the process of the implementing of Resolution of the Tenth congress of the LPRP as well as the Eighth Five-year National Socio-Economic Plan (2016-



2020). It also highlights the areas from the previous plan application that still need to be accomplished. In this Plan also imitates the Socio-economic Development Strategy until 2025 and the Vision 2030. Moreover, with an aim to build a new foundation for graduating from LDC status by 2020 to become an upper-middle-income country by 2030. Thus, the 8th NSEDP is an important among central to the assurance of the national defense and development of the party's new directions. The tenth Congress took place in Vientiane capital, Lao PDR, in 22 January 2016.

Party General Secretary Choummaly Sayasone noted that the Congress took place at an important time, when the country recorded a great number of achievements in the cause of national defense and construction made in the past 40 years. The meeting will also approve amendments to the Party statute and elect the Party Central Committee. The 1st Plenary Session of the 10th Central Committee elected the 10th Politburo and the 10th Secretariat. 11 people were elected to the Politburo, and nine to the Secretariat. All policies of government are determined by this party through that all-powerful, 11 member politburo of the LPRP and the 58 member central committees (Central Committee comprises 69 permanent members and eight substitutes).

**Figure 3: State Structure in LAO PDR**



*Source: Designed by the author based on the current situation, Lao PDR (2017)*

## **4.2 Economic**

Among 2010 to 2015, Laos is enjoyed political stability, peace, social order and widened international cooperation. Obviously, country has had the honor to host various important international meetings, Such as the 7<sup>th</sup> Asia-Europe parliamentary meeting and the 9<sup>th</sup> Asia-Europe summit in October and November 2012 correspondingly. The 6<sup>th</sup> Cambodia, Lao PDR, Myanmar, Vietnam (CLMV) summit And the 35<sup>th</sup> ASEAN Parliamentary Meeting in 2014.

All of these history events had provided an opportunities for member countries in order to explore and recognize the development potential and international cooperation in kind of policy in Laos. At the same time, the country also hosted the 16<sup>th</sup> ASEAN University Games in December 2012. Essentially, Lao PDR became a member of the World Trade Organization (WTO) on 2 February 2013. All of these events have supported development aspects and simplified business investment, production, and services. Despite the positive impacts, there were downsides unavoidable caused by severe floods and heavy storms in 2012-2013, which mainly damaged cultivated areas, infrastructure and households. To address these issues, the Government assigned the fund for reintegration and rebuilding in order to assist an economic growth.

### **Domestic Context**

Lao's economic term is quiet fragile and even the efforts to improve the business and promote the private sector investment. Country is still ranked very low among the World Bank's according to doing business survey 2015, and as 149<sup>th</sup> out of the 189 surveyed countries. In the area of goods production is not developed yet and the group of productions is still inadequated as well as

sensitive to external factors. For example, goods prices fluctuations and competition within international. One of the main challenges, the investment climate and quality of FDI is still exist. Specifically, to guarantee technology transfer and job creation. Disparities within urban and rural areas, inter-provincial and inter-regional development still be the gap between the poor and the rich is quiet large. According, the 8<sup>th</sup> Plan mentions the need of addressing sustainable development, equitable and inclusive growth with the better understanding the requirements of vulnerable groups and targeting them effectively over policy interventions.

Another issues affecting to urbanization, such as traffic safety, waste management, migration and other socio-economic issues associated with rapid urbanization are also the big challenge to be addressed. Moreover, there are limited human resources, skilled labor, knowledge Sharing and capacity in terms of public and private sector officials that cannot reach the Requirement of the local and global economic integration. In addition, it required to improve the quality of the access the basic social services in kind of education, health, nutrition, water, sanitation and hygiene and social protection. There are many challenges among the way of implementing which including strategy, limited development funds and high public debt, weak institutions and insufficient legal framework. Therefore, Lao PDR will need to response the transition from the Millennium Development Goals (MDGs) to integrating the global development framework provided by the Sustainable Development Goals (SDGs), which are currently being completed.

## Economic Growth

Over the past five years, Laos's economic growth has sustained at an average rate of 7.9 percent per year with the target of 8 percent. In this sense, the continuous economic growth is due to the appropriate macro-economic management measurement as well as mechanisms of the government, social order, peace and politic stability. Moreover, the regional increasing and international integration Gross Domestic Product (GDP) per Capita increased from US\$1,217 in FY 2010-2011 to US\$1,970 in 2014-2015, which exceeded the target of US\$1,700.

**Table 1 : Comparison between GDP Growth Rates of each Fiscal Year with the 7th NSEDP Targets (2011-2015)**

Description	7 <sup>th</sup> NSEDP targets (2011-2015)	Actual 2011-12	Actual 2012-13	Actual 2013-14	Actual 2014-15	Actual 2015-16
GDP growth (%)	>8	8.3	8.0	7.8	7.5	7.9
Agriculture - forestry (%)	3.5	2.8	3.1	3.0	3.0	-
Industry (%)	15.0	14.4	7.4	8.5	8.9	-
Services (%)	6.5	8.1	9.7	9.3	9.1	-

*Source: Report of NSEDP Achievement in 2012-11 and 2014-15*

**Table 2: Gross Domestic Product (GDP) per Capita**

<b>Year</b>	<b>GDP ( present Value) (billion kip)</b>	<b>7<sup>th</sup> NSEDP Target (US\$/person)</b>	<b>Actual (US\$/person)</b>	<b>Comparison Actual/plan (percent)</b>
<b>2010-11</b>	62,458	1,155	1,217	5,37
<b>2011-12</b>	70,343	1,332	1,349	1,28
<b>2012-13</b>	80,340	1,494	1,534	0,92
<b>2013-14</b>	90,823	1,674	1,671	-0,01
<b>2014-15</b>	102,320	1,860	1,970	5,91

*Source: Lao statistics Bureau (LSB), Ministry of Planning and investment (MPI)*

## State Budget Balance

Over the five year period of the 7th NSEDP, the Government has developed revenue collection tools to enable improved revenue collection and expenditures for administration and investment, as following:

- **Total Revenue:** Total revenue collection is 99,549 billion kip ( 11,7billion USD) , accounting for 24.6 percent of GDP (the Five-Year Plan target is 19-21 percent of GDP). In FY 2010-2011, revenue was 14,310 billion kip ( 2,0 billion USD) or 23.10 percent of GDP; in FY2014-2015, revenue was 24,468 billion kip (2,9 billion USD )or 23.9 percent of GDP.
- **Domestic Revenue:** Overall domestic revenue collected was 76,648 billion kip( 9,0 billion USD ), cover around 18.9 percent of GDP (the Five-Year Plan target is 16-18 percent of GDP). In FY 2010-2011 domestic revenue collected was 10,601 billion kip (1,5 billion USD ) or 17.10 percent of GDP, and in FY 2014-2015, domestic revenue collected was 19,923 billion kip (2,3 billion USD) or 19.50 percent of GDP.

- **Budget Expenditure:** Total budget expenditure was 118,639 billion kip( 14,0billion USD), accounting for 29,30 percent of GDP (the Five-Year Plan target is 22-25 percent of GDP). The budget expenditure in FY 2010-2011 was 15,115 billion kip (or 27,2 percent of GDP, and in FY 2014-2015 it was 29,097 billion kip (3,4 billion USD) or 28,40 percent of GDP. The budget expenditure has assisted better livelihoods of civil servants, the army and police as it has adjusted the cost of living condition and financial support to public officials, and certifying smooth and appropriate settlement of domestic and foreign debt.
- **Budget Deficit:** the total budget deficit was 19,090 billion kip (2,2 billion USD), covering 4.7 percent of GDP (the Five-Year Plan target is 3-5 percent of GDP). In FY 2010-2011, the budget deficit was at 1,687 billion kip (0,2 billion USD) or 2.7 percent of GDP, and in FY2014-2015, it was 4,629 billion kip (0,5 billion USD) or 4.60 percent of GDP.

**Table 3 : Summary of Revenue and Expenditure ( in Billion USD )**

Description	2011-12	2012-13	2013-14	2014-15	Total
<b>Total revenue</b>	2.0	2.4	2.7	2.9	11.7
<b>Domestic revenue</b>	1.5	1.8	2.1	2.3	9.0
<b>Total revenue</b>	2.2	3.1	3.3	3.4	14.0
<b>Budget deficit</b>	0.2	0.7	0.6	0.5	2.2

*Source: Report on Five-year State Budget Implementation (2011-15),  
No795/MOF.CO, March 2016*

### 4.3 The Central Government

Lao PDR is a unitary state with one chamber parliament which has known as the National Assembly. The amended Constitution in 2003 has allocated the whole public administrative system into central government and local administration (provincial, district and village levels). The government is the executive structure among the state which approved by the National Assembly. It has a significant role in term of political, economic, culture, social, national defense and security; foreign affairs in accordance with the principle of democratic centralism (Law on Government, 2003). Recently, the central administration consist of 18 Ministries and 3 ministries equivalent organization and the respective department. Additionally, each ministry including ministry-equivalent organization has its own line as a local branches (local line offices) at the localities, that a head of each local branch unit is appointed by the minister concerned.

The current president Bounnhang Vorachit since 20 April 2016, he is elected by the National Assembly with two-thirds of the votes of all members of the National Assembly attending the session. The term of office of the president of state is a five-year period. The president, promulgate laws, inter alia approved by the National Assembly, appoints or removes the Prime Minister (with the approval of the National Assembly). And members of the government, and appoint provincial governors/mayors based on the recommendations of the Prime minister.

The head of government is the Prime Minister Thongloun Sisoulith who is assisted by some deputies Prime Minister and Ministers, chair persons of ministries-equivalent organizations. The Prime Minister and all of deputy Prime Ministers are appointed or removed by the President of the state. While all of Ministers and chair persons of ministries-equivalent organizations are



appointed or removed by the president upon the Prime Minister's recommendation, with the five-year term of workplace.

## **4.4 The Local Government**

Local administration is the state administration at the local level. According to the Local Administration Law in 2016 updated, there are three-tiered of local administration ( Province, District and Village); 17 Provinces including Vientiane Capital, 148 Districts and 8,564 villages (MOHA, 2016). In this regards, at provincial level, there are province, capital city. At the District level, there are districts, municipalities and towns. At the village level, there are villages. The government delegates responsibility to the local administration structure and enables the government in order to manage the following matters within the locality namely: Political, Socio-economic and culture affairs, human resources management; territory, natural resources and population, national and local defense and security and other responsibilities regarding to foreign relations as given by central government. Shortly speaking, local administration is directly under the supervision of central government in accordance with the principle of democratic centralism that divides responsibility among management levels. The village level reports to the district level, the district level reports to the provincial level and the provincial level report to the government under the guidance and responsibility of the party committee which based on the Constitution and the Laws (LAL,2003).

Among the Local authorities, the organization structure of the provincial administration includes the provincial cabinet and local divisions<sup>3</sup> Of each line Ministries, Ministry-equivalent organizations. There are a

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<sup>3</sup> In Laos, the term of “division” is typically used for provincial bodies and the “office” is typically used for district bodies.

governor who assisted by two or three vice governors. The provincial administration is headed by the governor and also included the provincial level officials that sent from various central government ministries or Ministry-equivalent organizations. Among this, there are Office of governor and division-equivalent provincial level, establish by the requirement of exactly task in each province which approved by the people's council of locality. Likewise in Vientiane capital, ruled by mayor. And assisted by three vice mayors. In this regard, all governors and mayor are appointed, transferred or removed by the Prime Minister of the state after the recommendation of the Province People's Court While all vice governors including vice mayors are appointed by governor and mayor after the the Province People's Court has approved.

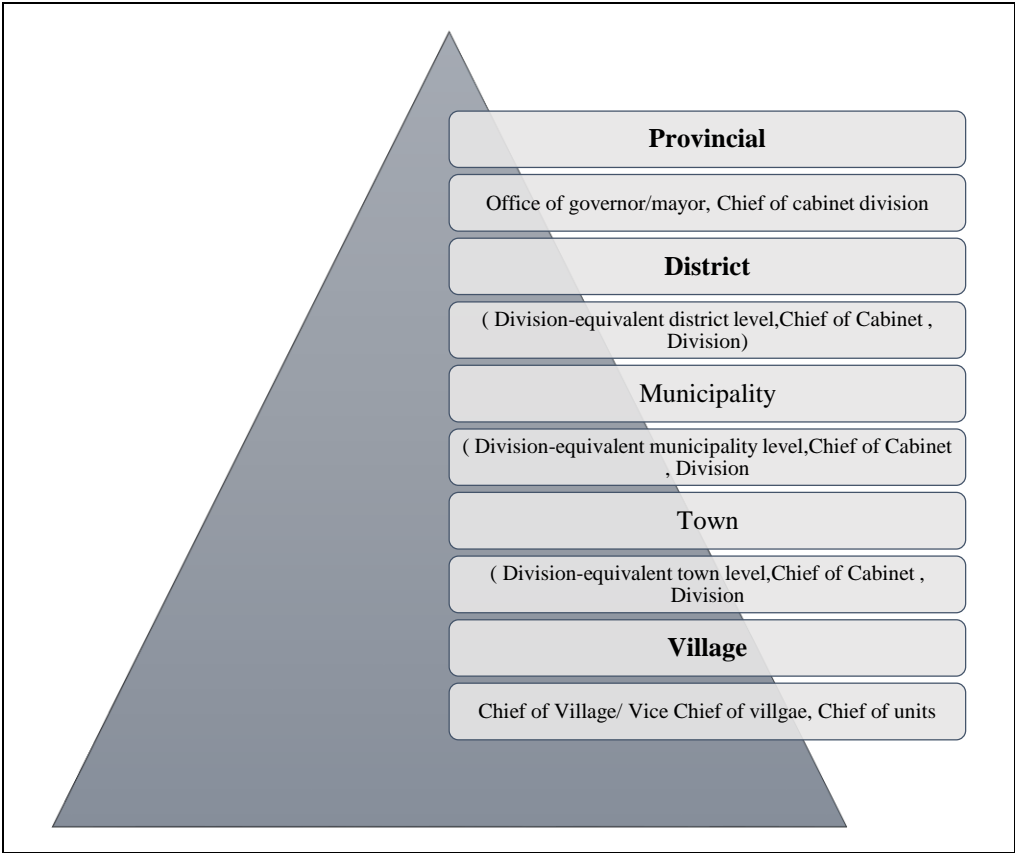
Districts are governed by Chief of district, there are Office of the chief of district and division-equivalent district level, establish by the requirement of exactly task in each district which approved by the Local People's Court . Municipalities are governed by chiefs of municipalities, there are Municipality offices and division-equivalent municipality level, establish by the requirement of exactly task in each municipality which approved by the Local People's Court. Towns are governed by chiefs of town, it consists of office of the chief of town and division-equivalent town level, establish by the requirement of exactly task in each town which approved by the Local People's Court. Villages are administered by village chiefs. In village has vice chiefs of village (2-4 People) and Head and vice head of units, including 5 units<sup>4</sup> in 1 village. Chief of village has elected by citizen under each village; has approved and removed

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<sup>4</sup> 1) Administration and governing unit, 2) Party and organization unit, 3) Economic and finance unit, 4) Culture and Social 5) Defense and peace unit.

by Chief of district, chief of municipality and Chief of town. Governors, mayors, chiefs of municipalities and village chiefs have deputies to assist them in their work. The governors, governors of cities, mayors, chiefs of municipalities cannot hold the position for more than 2 consecutive terms.

**Figure 4 Structure of Local Authority’s Branch**



*Source: Designed by the author based on the Law of Local Administration, 2015<sup>5</sup>*

<sup>5</sup> **Note:** **Municipality** and **town** is established in the case of the future development of the country administration. The Current situation, among local administration under locals level has Province, District and Village ( based on the Law of Local Administration( 2015).

## **4.5 Decentralization in Lao PDR**

### **The Purpose and Strategy of “Three Builds Directive”**

Lao PDR has long-term development objective as to leave the ranks of the least developed countries by the year 2020. To achieve this ambitious target, Lao PDR have to develop public administration services which provides the sort of necessary resources for rapid the economic growth as well as social development. Thus, decentralization has been a key activity within the Lao officials since the early 1990s. Public administration improvements have become a key element in developing National Poverty Eradications Plan. Developing the quality of public officials is the first priority that government have to consider in the reform process. In this sense, it expressed to build up the local authorities performance such as effective, efficient, well-trained, service delivery that can promote sustainable economic development as a basis for eradicating poverty and creating the models of development mechanism.

To answer this objective, improve the structure of government, administrative, management direction and simplify the structure of government and administration at all levels rationally and efficiently. There is a require to identify and responsibilities of each type of organization which based on clearly requirement and standards in order to ensure appropriates staffing in each ministry and another central government agencies. Consequently, focusing on macro-management, strength government among local levels as well as clearly divide the obligation within central and local levels, in the areas of local administrative such as provincial, district and village. Following the Three Builds Directive, Develop the local government supporting structure at each administrative level to counterpart the demand of development and qualify the effective government policy application.

According to the main purpose of Three Builds Directive, Firstly to create a province as a strategy units, district as comprehensively strong unite and village as a development units. To get more understanding, in order to implement the policy as a legal reference and government view, it aimed to formulation of People's Democratic State which is more stable. Secondly, to develop leadership integrating role among the party committee members in kind of enhancing the ownership and accountability in government and socio-economic management of public administration. Moreover, to expand the service delivery become more closely to increase in political capacity building among local levels at grassroots level which is the formulation of development village according to 4 contexts 4 targets of the Resolution No.03 of Politburo. Thirdly, to interpret principle of centralized democracy in Party's leadership and principle of consensus in government conformity with new conditions and requirement of developing countries; achieving targets to reduce poverty of household to below 10% and achieve MDGs by 2015 and to graduate the Nation from LDC status by 2020.

## **Three Builds Directive Implementation Units**

**Formulating Province as Strategy Units:** Normally, province in Laos is considered as a strategic units by itself. In each province is significant in domination and administrative aspects, geographic-politics, national defense, economic infrastructure and history of culture. Thus, Build the province as strategy units means to formulate the strengthening of these tasks as one the national strategic unit. And to create condition and related necessary factors to formulate province as strategy units as following:

- Province as the highest level of local government must have accountability to govern in macro-level under describing more clearly about boundary of

province obligation, especially , responsibilities of setting regulation which under the law existence the means of administration and social-economic management among province.

- To assign responsibility and to distribute equally and interest in each local government level. The ministries must own research goals themselves which duty has been assigned to the province, when evaluating research in Ministry sets to combine for discussed creating a uniform list that connect with vertical divisions in provincial level. The province must emphasize on research what is the decentralization of the Ministry by the potential and ability among province and courage to support and dividing division of administrative level from the Ministry. In the area of permission or authority as decentralized province linked to delegate responsibility as well as benefit sharing to province properly. To be more detail, province have to consult the spirit that the province must understand the need of central government; balance the benefits to the country. In the contrary, central government also perceived needs within province. Among the authority delegated responsibility and benefit allocation to the province to the province are divided in accordance with the fact of situation in each province. After delivery, the ministry should monitor the situation in order to see the reality again and them to recognize provinces work is complete or not. Next, association with provinces and improve themselves. Authority delegated responsibility and allocation of interest sharing within the ministry and province, the implementation is continuously consuming times to test the result. Then, the improvement of expressing legislation is related to traditional administration and management in Laos it seemed to be centralized systems uniform basis of clear process-oriented measures as administration of law are sanctified.

### **Formulation Districts as Comprehensively Strong Units:** Mostly,

district is a main units among the administrative aspects to better public administration and service delivery. Many project have been implemented among the district throughout the country. Thus, in order to build the province as strategy units means to formulate the strengthening of these tasks as one the national strategic unit. And to create condition and related necessary factors to formulate province as strategy units as following:

- To formulate the district as comprehensively strong units. Firstly, the connection with enhancing the interpreted leadership role among the District Party Committees as well as the administrative role on District Administration. To doing that, a district must be planning and budgeting units.
- Define the rights and responsibilities for administration, Socio-economic and cultural in order to assign the district in appropriately which based on criteria of planning and budgeting units under provinces. Therefore, government gives more responsibilities to district for addressing poverty at the same time formulating development villages and rural towns.
- The principle regarding to decision among districts are not allowed to make by themselves (District have no right to decide), particularly in terms of the management, extraction and natural resource using; management and use revenue collected that is surpassed the plan; leasing-concession or removal of state assets, approval and issuance of business registration managing of public vehicles and assets and so on...
- Define an appropriate mechanism and regulations for management of personnel by giving the right in appoint or remove personnel in positions under the district offices director and below which based on position

criteria and also in collaboration with provincial governor to give the comments.

- Improve and restructure of District administration in order to create it suitable to current situations; along with reshuffle of personnel regarding to job description at the same time work requirements and priority development projects in each district.
- Study with the view to define the regulations and instrument which related to appointment and distribution of personnel to positions in conventionality that defined criteria in district administrative structure.
- Continue to research the possibility for establishing among cities and municipalities which is clearly interpreting and fundamental roles. Moreover, the number of villagers under one administrative zone of one district also needs to be definite in properly to be able to distribute development and management.
- Research the involvement of district in recurrent budget allocation to defense and security activities which focus on district as defense and security units (strong , capable to operate independently; formulate district as a non-depleting sources of human and arm force under grass-root defense and security.

**Formulating Villages as Development Units:** Village is the smallest governed grassroots units in Laos which aim in building developed village in 2 aspects:

- 1) To make a village as strong unit can perform the administration, social-economic division in the village.
- 2) To make village become a small town in rural area, that means the village will be chosen a target to qualify and be able to build a small town in rural area.



To build village as developed village that defined by trail 3 direction for differing with the focal village such as: the village can be expanded recommendation citizens which include the development of social economic infrastructure regarding to a small town. In that sense, village should have some conditions on the production of goods and service for making money to address the poverty at the same time create a wealth community center. Beside this, providing public services and serving various another facilities among villages. In the target village by trail 3 directions must consider strongly security that also Strengthening political system with foundation has been improved. To doing that the district development plans have to be include these villages as well. <sup>6</sup>

To sum up, the above information has shown the facts of Lao PDR in different contents. Generally, in the area of administrative aspect seems that the country is ready for decentralization. It can be seen that, the legal documents and country background are served as references for central government in order to decentralize. For example, the Law on Local administration (revised, 2015) outlines the basic principle regarding the organization, provincial, district and village levels. Moreover, the division of functions among central and local government is determined by the acts of organization concerned. The next section will examine the actual implementation in decentralization of Lao PDR.

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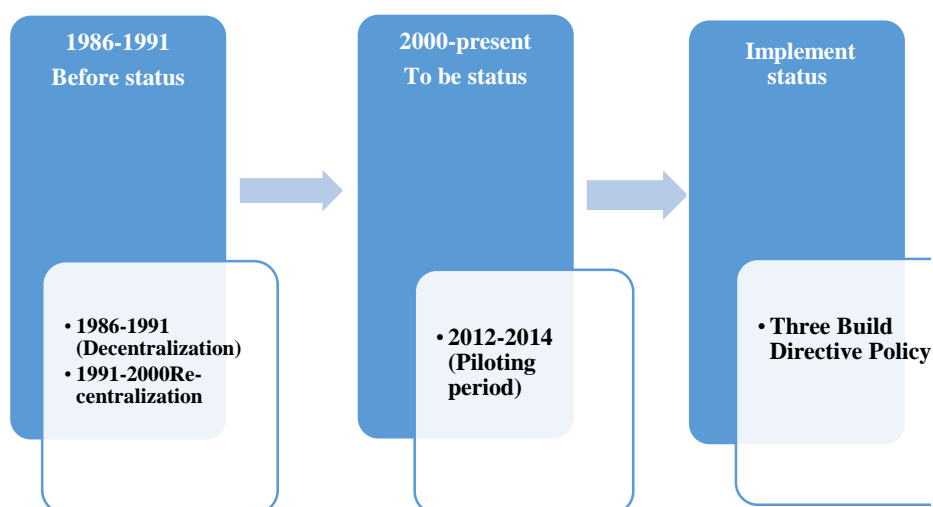
<sup>6</sup> The Party Resolution No.03/CPP in 2012, Building of province as strategy unites, district as comprehensively strong unites and village as implementation units. Based on 5 context in each formulating (province, district and village), 1) Political and governing, 2) Defense and peace, 3) Economic, 4) Culture and Social, 5) Foreign Affairs.

# Chapter 5: Analysis Of Decentralization

## 5.1 Overview Background of the Decentralization

After gaining independence, the government specified country development policies in each period by governance reforms in line with the reality and demands of the country. The periods of Lao governance reform can be divided into four main periods of the length of time related with assorted factors. (Gomez et al., 2008): At the beginning the administration in Lao PDR was centralized in 1975. In this section the four periods will be discussed. Firstly, in 1986 until 1991, the 1986 decentralization was inadequately planned, making revenue generation and management problematic; Richer provinces did not subsidize poorer ones under decentralization. Secondly, once again recentralized in 1991 to 2000, the various process has occurred, it has known as a re-centralization. Thirdly, the section began from 2000 to now. During this period, in 2012 to 2014 the piloting period was a main part in decentralization implementation In Lao PDR and the last section is 2014 until now.

**Figure 4 : Three State of Decentralization in Lao PDR**



*Source: Designed by the author based on the current situation, Lao PDR (2017)*

## **Decentralization (1986-1991)**

In 1986, Lao PDR has been firstly applied the concept of decentralization. Mainly, the centralized on planning and economy aspects. The purpose of the decentralization was to push the country up from the economic depression while another aim was to overcome the issues of planning. In order to answer this aim, Transferring more responsibilities and powers to local levels as well as encouraged them to become self-sufficient are the main tasks in local administration. It also included the authority's appointment of the civil servant in local level, tax collection, state-owned enterprise (CLAIR, 2002, p139).

In the local levels, especially, the provincial level become more powerful for controlling the localities scope. Thus, the provinces became accountable for planning, administering and managing. Local administration grew up quickly as each locality they created their own complete organization. At the same time, the manager under local branches of the state bank were selected by local authorities and various management their own credit policy, decided the level of wages for civil servants. Generally, Local authorities were given more autonomy then they Could be able to become the main pillars of new national economic. Moreover, the local line offices under central government as organizations were also placed under the authority of the provincial governors and the chiefs of district. Even though positive or negative outcome, these was believed that it would assist to overcome the difficulties by the top-down management approach the planning of central level.

Therefore, among the deviation of development within provinces and districts also rural and urban area has increased rapidly. Then, there was some gap for distribution within wealth across the country. Especially, the central government did not have appropriate mechanism in order to evaluate the

administration of localities. At the same time, it seemed that the relationship among central and local authorities became more problematic in kind of communication gap. Therefore, the central government could not control provincial authorities. Since then, the re-centralization was applied in 1991.

## **Re-centralization (1991-2000)**

In 1991, Lao PDR has applied Re-centralization as a constitution. Regarding to this constitution, Lao PDR was a unitary de-concentrated state. That means the state authority is concerned as the central level which de-concentrate more technically responsible for lower level. During that time, the central government was expected to perform a main role to ensure national unity and the service delivery. Re-centralization brought the fiscal functions and strategic planning of the administration under the central government. Later, in 1999, diagnosing the difficulties in creating are completely centralized system and the likely downsides, from 2000, the Lao government approved a fractional return to decentralization via a de-concentration process as will be discussed in below.

Following the constitution, the main tasks namely fiscal, legal power and administration were belong to the central government for counter the negative impacts of decentralization in the 1980s. From that time, the central had power to supervise all sectors and all levels in kind of administration. For instance, at the provincial and district levels offices were officially control by respective central ministries instead of provincial governors. Moreover, the central level were direct control in kind of budgeting, planning, policy guideline as well as all legal features were established by higher authorities. Since then, the central and local levels have become clearly defined regarding responsibilities. Beside this, the constitution has brought the foundation for

expanded the monitoring of activities in local fields to meet the satisfaction of citizen.

It can be seen that the re-centralization procedure of the 1990s brought various positive outcomes. The macro-economic situation became stability condition for further national development. Unfortunately, central government could not handle whole tasks at the localities because of the economic growth. Then, the administration has been decentralized since 2000. Continuously, the next review will be the decentralization from 2000 until present.

### **Decentralization (2000 to the Present)**

Among the economic growth, together with an increase of new requirement of good governance and good public services. Since 2000 the Government has been shifted again for the concept of decentralization which aim to find out more careful transfer of certain responsibilities toward the local levels. Thus, two main legal acts were introduced in order to support this decentralization policy on this phase: 1. The Prime Minister Instruction No. 01/PM in 2000 and 2. The Party Resolution No.03/CPP in 2012.

The Prime Minister Instruction No. 01/PM in 2000 had shown that “Build the provinces as the strategic units, the districts as the planning and fiscal units, and the villages as the implementation units” was necessary terms. In general, the central government gave more powers to local levels, mainly district level. The main emphasize on these de-concentrated powers were planning and budgeting sectors. It seemed that these policy worked well for a decade even through it could not be implemented throughout the country.

The Party Resolution No.03/CPP in 2012 said similarly as the Instruction No. 01/PM in 2000, as “Formulation of provinces as the strategic units, Districts as Comprehensively strong units, and the villages as the implementation units”. It firmly focused the empowerment in the instruction

No.01/PM mentioned above. At the same time, it also aimed to present highly the commitment of government to decentralize partial administration that emphasize the function of administration at local levels.

## **5.2 The Effectiveness of “Three Builds Directive”**

### **Policy**

In the field of Decentralization, it is different from one country to another country. Regarding to the purpose of each country that needs to achieve. So far, there is no specific agreement in order to analyze the implementation of decentralization (Vengroff 1992). Over the past five years, all of sectors both national and subnational levels has given a great attention in order to develop local areas in accordance with four concepts and four targets at the same time with the Implementation of “Three Build Directive” that means building provinces to become strategic units, districts to become comprehensively strengthened units and villages to become development units). Along with the application, this following analysis will examine the hindrances of decentralization and bring out some discussion point that should be more consider among the experimental phase in details as below.

### **Before Status (1986-2000)**

As already mentioned earlier, decentralization has been introduced into Lao PDR twice. Firstly, it was between 1986 to 1991; and second, from 2000 until now. Nevertheless, it was not success in the first stage due to the inconsistency in some legal documents, organization and personnel aspects (Prime Minister’s Ordinance No.16/PM2012). Thus, the author tries to mention to the stage of decentralization as it was a hot topic in order to discussion within the government and officials. In this regards, two main regulations has served as the fundamentals of decentralization at this stage as following:

## **Decentralization Under the Prime Minister**

### **Instruction No.01/2000**

Under the Prime Minister Instruction No.01/2000, decentralization was aimed to promote people's participation in socio-economic development. Moreover, it also expected to increase the coordination among different units at local levels and in neighboring countries. In 2000s, decentralization were merely focused on the planning and budgeting sector of local administration; especially at the district level. According to, the Instruction No.01/2000 mentioned that it was necessary to "Build the provinces are the strategic units, the district as the planning and fiscal units, and the villages as the implementation units" in government's development policies. Since then, there were many legal acts from ministries concerned, with the aim to assign responsibilities and power transfer in the area of decision-making to their branches at local levels. For the legal acts as Law on Government No.02/NA/2003, Law on Local Administration No.03/NA/2003<sup>7</sup>, Law on State Budget No.02/NA/2006 and so on.

Regarding to the Instruction No.01, these laws and its various supporting regulations provided by the guiding framework which the decentralization is taking place. It means, provinces, districts and villages

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<sup>7</sup> The Law on Local Administration of October 2003, states 'the organization and functions of the local administration are implemented in accordance with the principle of centralized democracy and de-concentration', which divides responsibility among management levels, does little to strengthen the PM Decree 82/2003 in terms of the division of responsibilities for policy making, oversight and implementation. Thus, currently, decentralization in Laos as a policy of the state finds expression as a de-concentration of state authority, where sub-national units have the responsibility of implementing centrally determined policies. This also extends to the financial management system, including Budget allocations.

responsible for establishing and achieving a comprehensible vision among local development which obviously stated needs and priorities. In this Instruction emphasize the vital importance of family units and their role as production and service units. It support the policy of government to boost sustainable development among local levels and poverty reduction; especially in remote area. Moreover, it also highlight that needs to increase evaluation and monitoring at the village level, separating families into wealthy. Self-sufficient and poor families. Thus, these assistance can be easily targeted in appropriate planning in the future.

In order to build the district as planning and fiscal unit's means the districts can be given more responsibilities for socio-development. In any districts with growing economy and high economic potential can apply to provincial authorities and the Ministry of Finance (MOF) to become a fiscal units. In another meaning, they have to response for establishing their own budget and managing their own expenditure and revenue. Beside this, those districts that low capacity are recognized as deficit district and the support form provincial level in order to meet their budget needs. All of districts have benefited which from increasing the training to increase their planning and budgeting capacity.

The provinces are considered as the strategic units that responsible for allocating responsibilities to districts in the areas of implementing, monitoring, evaluating and budgeting processes. Moreover, they will responsible for the macro-management of all sectors under the local levels; including national defense, security, economic development and social promotion. For the provinces that are not self-sufficient, they might receive the support from the central government budget to meet their expenditures.

As a result, it can said that decentralization has created some positive aspects. For example, civil servants among provincial and district levels have



undergone training in village and family planning. The Revenues had increased in village level, through the use of newly established financial committees in village level; and also a promotion of this has been directed to village development funds. At the same time, the amount has been established by the MoF in amount from 4 % for urban areas to 15% for remote areas. Nevertheless, some provinces with particularly remote areas have earmarked a much higher percentage in the village development.

Among districts level, local authorities have been given responsibilities over their budget spending, management of small projects and some decision-making among local level issues. In this area, most of districts have become more involved in taxation and financial issues, likewise the role of mentors for village finance committees. Therefore, the linkage within villages and districts have become closer. And the division of responsibilities among them has also become clearer. The observation showed that the district authorities had developed enthusiastic in the field of implementation of their responsibilities increasing and in achieving local development purposes.

Under the Instruction No.01, provincial authority's level have retained important control over many areas such as revenue collections (tax and custom duties), both of them are remitted to the matters of central government. In the area of the benefits, careers, and working conditions of the official in provincial level. All of these responsibilities have allowed the provinces authority over their own affairs. In the process of decentralization, provinces have been encouraged in order to set up the provincial level amount of tax payer units to collect the taxes from another sectors as business units within the provinces.

It can be seen that there are still problematic in the area of decentralization. Through some ministries hesitate to delegate their responsibilities and powers to local authorities. Furthermore, they seemed to worry about the capacity among local personnel in relation powers and function

exercising. Particularly, some of ministries want to merely transfer some functions but there is no resource to local authorities.

As a results, even the decentralization caused some negative aspects, it has also strengthened the People's Democratic State for the country by starting up from the local as grassroots. More than that it is also believed that it would be suitable for the movement towards government enhancement in order to increase local accountability. Thus, the party and government have strongly dedicated themselves to enlarge the decentralization policy throughout the country by introducing the Resolution No.03/CPP in 2012 as clearly discussed in below:

### **Decentralization Under the Party Resolution No.03/2012 “Three Builds Directive” Piloting Phase**

The decentralization policy has covered in widespread after the promulgation of the Party's Resolution No.03/CPP in 2012. In this sense, 15 central ministries, 17 provinces - including Vientiane capital. 51 districts and 109 villages are selected to be the target<sup>8</sup>. This Resolution is said similarly as the Instruction No.01/PM/2000 “Formulation of provinces as strategic units, district as comprehensively strong units and village as development units”, it is so called the Three Directives ( Sam sang) in Laos. This resolution is considered as the one of the most significant policies in encouraging decentralization at present. According to this resolution, it is emphasized the importance of decentralization for this country. For example, In the case of decentralization is

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<sup>8</sup> Lao PDR, Five Year National Socio-economic Development Plan (2016–2020), Ministry of Planning and Investment, Vientiane, 2015

properly implemented that means the area of poverty reduction of household to below 10% and achieve MDGs by 2015 as well as graduate the nation from least developed country by 2020.

To ensure the implementing of decentralization policy is applied effectively in accordance with the guidance of the Resolution No.03/CPP/2012, and another supporting legal documents are also enacted both party and government. In this country, there is no clear-cut division within power between party and government. That means party is the highest decision-making part. Hence, somehow it necessary to mention regarding the political party and its regulations in this paper. In some vital example of these regulations are:

- 1) The Prime Minister Ordinance No.16/PM/2012 on piloting the Formulation of Province as Strategic Units, Districts as Comprehensively Strong Units and Village as Development Units,
- 2) Ministerial Instruction No.2202/MoF/2012 on piloting Three Construction in Financial Sector;
- 3) The Ministerial Instruction No.01/MOHA/2012 and so on.

All of these regulations are fundamental for guiding all the sectors related to decentralization In order to assign their roles together with personnel and financial resources to the local levels of administration appropriately. In this meaning, all selected targets of decentralization implementation policy are required to review their own previous regulations. Encouraging the the awareness in decentralization to establish a common understanding among government officials are required, as well as policy maker and practitioner. However, these legal documents merely provided the guidance, clear demarcation responsibilities within central and local government, at the same time, the local levels units need to be defined. Thus, the mechanism control is

still missing. And proper responsibility to be transferred or delegated is still debated.

To conclude, the decentralization process is still delayed in Lao PDR, even it has been implemented for many years. It can be seen that the demarcation of function is not enough clearly defined. At the same time, the overlapping among tasks responsibilities still remained problematic. Thus, the legal framework is the main priority to work on. Beside this, the understanding within the concept of decentralization is remained discussion topic among the government officials. Importantly, there has been no study and analysis on the conditions for effectiveness decentralization. Together with the characteristics of administration, mostly at the local administration level has not been studied systematically. Most significantly, Administrative decentralization as a review of the implementation and examine the factors of successfully decentralization are necessary to explore in this research. Therefore, the next content will survey the characteristics for assessment of decentralization in Lao PDR.

### **5.3 The Characteristics of Lao's Decentralization Policy**

Due to lack of specific categories in terms of decentralization process and the requirements needed to make it a success. In this section, four dimensions and discussion structure will be applied that including Legal framework and administrative capacity, fiscal administration, Human resource development and civil participation. This study will find out the burdens of decentralization point by point that should be more consider in the ongoing process in details as following:

## **The Legal Framework and Administrative Capacity**

After the country promulgated the first constitution in 1991 (revised in 2003), the first Policy of decentralization has been introduced in Lao PDR. Since then, in 2000 it has been reintroduced again after the promulgation of the instruction of No.01/PM. Moreover, decentralization has become popular in 2012 after the Party Resolution No.03/CPP was disseminated among the country. Nevertheless, in this analysis will emphasize mostly from 2000 to present.

Since 2000, the government has announced the Prime Minister Instruction No.01/PM (11 March 2000) and the Instruction No.128 (11 March 2000). These instruction had the main objective which define the province as the strategic unit and focusing in planning activities and the district as the budget execution unit. According to No.01/PM mentioned that it was necessary to “Build the province as the strategic units, the district as the planning and fiscal units, and the village as the implementation units”, it can be seen that in this period decentralization only focused on two sectors such as planning and budgeting. Particularly, the instruction No.01/PM was supported from two regulations, namely: 1. Instruction recommendation/note No.182/MoF (24 November 2000), the details was focused on planning responsibilities in each level among government, and 2. The state budget law (amended) No.02/NA/2006 (26 December 2000).

Despite the above regulations, many regulations were enacted among the role for the change in administrative structures in this country. Moreover, these also influenced decentralization policy making in each period. It was understood that these principles seemed to support decentralization. On the

other hand, they were considered as a blockade for decentralization. Regarding to the report of PACSA in following regulations:

1. The first Constitution in 1991, revised in 2003;
2. The Party Resolution No.21/CPP(May1993),direction and principle for sector management;
3. The Law on Local Administration No.03/NA ( 21 October 2003);
4. The Law on Government No.02/NA ( 06 May 2003);
5. The Law on state budget No.05/NA (18 July 1994) amended in 2006.

The first examination, the instruction No.01/PM has an unclear definition of “Building the province as the strategy units”. Practically, there are many strategies at local level in the field of administration that brought out for discussion among specialists. Likewise, the meaning of to build the district as the planning and fiscal units means to deal with the problems in planning and financial sectors. Concisely, the problems were resolved only these two sectors through the process of decentralization. In reality, among the districts levels, many problems required to be solve; for instance in the education and health sectors. Moreover, the defining of “the village as the implementation units” it seemed to be more confusing for staff<sup>9</sup> who work under village levels. In Lao PDR, there are large number of staff who has limited of education in some areas, mostly in rural areas. It obviously showed that the implementation of planning and budgeting is quite more challenging for them. Therefore, it is not practical to set up the village as the implementation units in order to implement the policy of government.

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<sup>9</sup> The term of “Staff” means to citizens who work for the village in administrative in their village, which including the elected chief of village. (They are not considered as a “Civil servant”).

The instruction No.01/PM is still considered as an indefinite policy for practitioners. In this sense, the process of interpretation of this policy is depended on their ability of understanding among one organization and individual. Some of them understand that it is a concept of decentralized while another understand that it is not centralization, that means all powers are centralized. In reality, this instruction actually defines the process of planning which form bottom up approach (PACSA, 2010). Despite this instruction, another associate regulations are also unclear in relation the State Budget Law No.02/NA (26 December 2006). Exactly, it does not state the functions of responsibilities that village staff should be undertaken in this field. Shortly speaking, village level are not assigned to response the related budget. Beside this, even some responsibilities are already assigned to them, it seemed they cannot implemented at the local administration especially at district and village level. One of the main barrier goes to the planning and tax collections. Therefore, this might be the affected by either low capability or inadequate number of local official at district level and staff in village level. Thus, the country has practiced a decentralization structure through the application of the instruction No.01/PM/2000.

Generally speaking, in the public administration reform in Lao PDR, Decentralization is considered as one of the most important approaches in order to implement the reorganization. Since the applying almost ten years, it is still challenging in term of the procedure. Though, decentralization policy has become widespread within country after the 9<sup>th</sup> Party congress promulgated the Party Resolution No.03/CPP 2012. And it is the top issue in the area of government and official/policy maker discussion. This Instruction was mentioned similarly from the instruction No.01/PM/2000 in kind of “Formulation of Province as the strategic units, District as comprehensively

strong units , and the village as development units”, it is well known as three formulation, Sam sang in Laos ( Appendix6). The meaning provides guidance to central and local government in relation acceleration the decentralization policy throughout the country.

The resolution No.03/CPP, 2012 mentioned that 15 central ministries, all 17 provinces-local levels, 51 districts and 109 villages are nominated to the decentralization policy piloting project. This resolution is primarily supported by the regulations as below:

- 1) The Prime Minister Ordinance No.16/PM, 2012 ( 15 June 2012) ,piloting the formulation of provinces as strategic unites, district as comprehensively strong unites and villages as development units.
- 2) The Ministerial Instruction No.01/MOHA,2012 ( 13 July 2012), the implementation of ordinance No.16/PM,2012.
- 3) The Ministerial Instruction No.2202/MoF,2012 (15 August 2012), piloting three construction in financial sector.

All three above regulations are fundamental in kind of guidance for selected ministries to perform their roles together within personnel and financial resource management through the local levels administrative. Additionally, these ministries are required to revise or generate their former regulations in order to simplify the decentralization policy. However, these regulations are only the guideline, the demarcation of responsibilities within central and local administration have to clearly define in this implementation.

Therefore, the legal framework and administrative capacity is the main priority to be considered in decentralization policy. It can said that the two main regulations: The instruction No.01/PM, 2000 and the Party resolution No.03/CPP, 2012. These principles merely outline the direction of decentralization for the country reform aspects. Particularly, the Party



resolution No.03/CPP, 2012 only give the guideline to the 15 ministries to decentralize the appropriate functions in their local branches. Nonetheless, the appropriate functions among local levels are not clarified enough. To response these situation, in 2014 the instruction No.25/CPP 2014; Therefore, the existing legal framework and policy process urgently need to be implemented. Without a strong emphasize and consistent legislation among the implementation of decentralization policy will not work properly, mostly in the area of local administration.

## **Fiscal Administration**

Financial administration are the one of the most significant features for decentralization in Lao PDR. In this factor, there are including the share of total public sector revenue and the expenditure of local levels. In each country, they has different aspects in kind of transferring the financial resource; financial resource among local levels can be given through financial decentralization. In this section will analyze the financial resources among local administration which focusing on expenditures and revenues.

In Lao PDR, paradoxically, the de-concentrated structure might represent one of the important limitation to efficient decentralization. First of all, in order to capitalize the advantage of fiscal decentralization among provincial, district representative assemblies, in the power of approving their particular sub-national budget are required. In short, providing independent legal vertical to Local units would not be against the unitary system as government in Lao PDR, Nonetheless, the structure of vertical government might now allow their formation without a important renovation among the system.

## Expenditures Designation

In local administration as they are assigned the obligation in terms of public delivery services such as education, healthcare service, and infrastructure and so on. In these definite assignment of expenditures partly follows the subsidiarity standard of expenditures assignments<sup>10</sup>. Provincial administration play a critical role in the vertical structure of government. Province are also manages the national and local affairs as assigned by the central government. However, there are two main shortcomings of the current system in relation expenditures assignment in Lao PDR.

First of all, the absence of clear expenditure assignment within local levels administrative; more specifically at the districts and village levels. In this sense, under the Law on state budget No.05/NA, 1994 defined that the provincial levels have to arrange all expenditures assignments among districts and villages under their territories; with minor concessions. In this hierarchical structure of government might potentially intimidate the well-organized and uniform hierarchical intention, as well as the national of expenditure and revenue raising responsibilities for whole levels of government; leads to unpredictability and uncertainty in intergovernmental fiscal affairs, it seems that it has not consistent revenue and expenditure frameworks are provided in some local levels. Moreover, the lack of the monitoring and enforcement capacity among central and local management are perceived. That ends up with the potential of highly inefficient system of fiscal relations, dispose to corrupt

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<sup>10</sup> The subsidiarity principle stipulates which responsibility of the provision of goods and services should be placed at the lowest level among government, For example: compatible with few amount of benefits in service.

practices and vague of any kind of political accountability (Martinez-vazquez, Jorge, & yao, 2005).

Another important inadequacy of expenditure in Lao is that the present assignment of expenditures responsibilities in the local government is uncertain. Significantly, these expenditure assignment fails to consider the multi-dimensional nature of expenditure assignments. In this regards, the Budget Law does not decide either between national functions that are delegated for implementation to the local levels( in de-concentrated). And also those functions that are own functions of Local levels in decentralization. In this factors, the lack of explanation of expenditures assignment for concurrent and responsibilities among central and local government, as well as the legislation does not clarify who is supposed to be responsible for what in the area and scope of co-responsibility needed. (see figure below), A way introduce clarity in the case of co-responsibility is to be explicit under the law regarding to the distribution of competencies for regulation, financing, and managing of the responsibility.

**Table 4 Assignment of Expenditure Responsibility in Lao PDR**

<b>Categories</b>	<b>Provinces</b>	<b>Districts</b>	<b>Villages</b>
Health	Provincial and district ( Hospital services)	District services as assigned by province	Implementation unit
Education	Provincial services (Primary and Secondary program)	District services as assigned by province	Implementation unit( school construction , and assignment of teacher)

Economic Activities	Provincial and district services	District services as assigned by province	Implementation unit
Culture ad Sports	Sports and cultural performance at local levels	District services as assigned by province	Implementation unit
Social	Provincial and district services	District services as assigned by province	Implementation unit
Defense	Local defense and security	District services as assigned by province	Implementation unit
Police and Security	Provincial and district police and security	District services as assigned by province	Implementation unit
Political organs	Provincial and district political organs	District political organs	Implementation unit
Prices Subsidies	Provincial and district services and programs	District Services as assigned by province	n/a
Interest	Debt services on programs ( benefit to provincial and district level)	n/a	n/a
Other Expenditure	Disasters , disease and poverty relief	District services as assigned by province	n/a

Capital Expenditure	Provincial and district infrastructure management	District services as assigned by province	Implementation unit
Transfers	Transfer to districts	District services as assigned by province	n/a

*Source: Sepulveda, Martinez-Vazquez and Gomez (2008), complied from Decree 192/PM/1999- the implementation of the 1994 Budget Law, amended in 2006 (Adjusted by author)*

Ideally, the following assignment of expenditures responsibilities would be authorized in Laws within provincial and district levels or in the Budget Law. However, In Laos Local levels do not have separate legal status. Officially, this importantly limited the possibility of rational role of different level of governments.

## Revenue Designation

Among the local administration in Lao PDR is given some source of own revenues in order to reach the great practice in the field of decentralization; More specific at the provincial level. However, provincial level is accountable for administrative and collecting some taxes which has been assigned to the central government, like the turnover or value-added in taxation, exercise taxes and corporate profit in taxes<sup>11</sup>. In addition, provinces are in charge of collecting and import duties, natural resource tax, and the timber royalties. In total, at the local levels is around 60% of overall government revenues are collected by them; while a relatively weak central government tax administration focuses almost exclusively among the group of large taxpayers. Indeed, out of a total

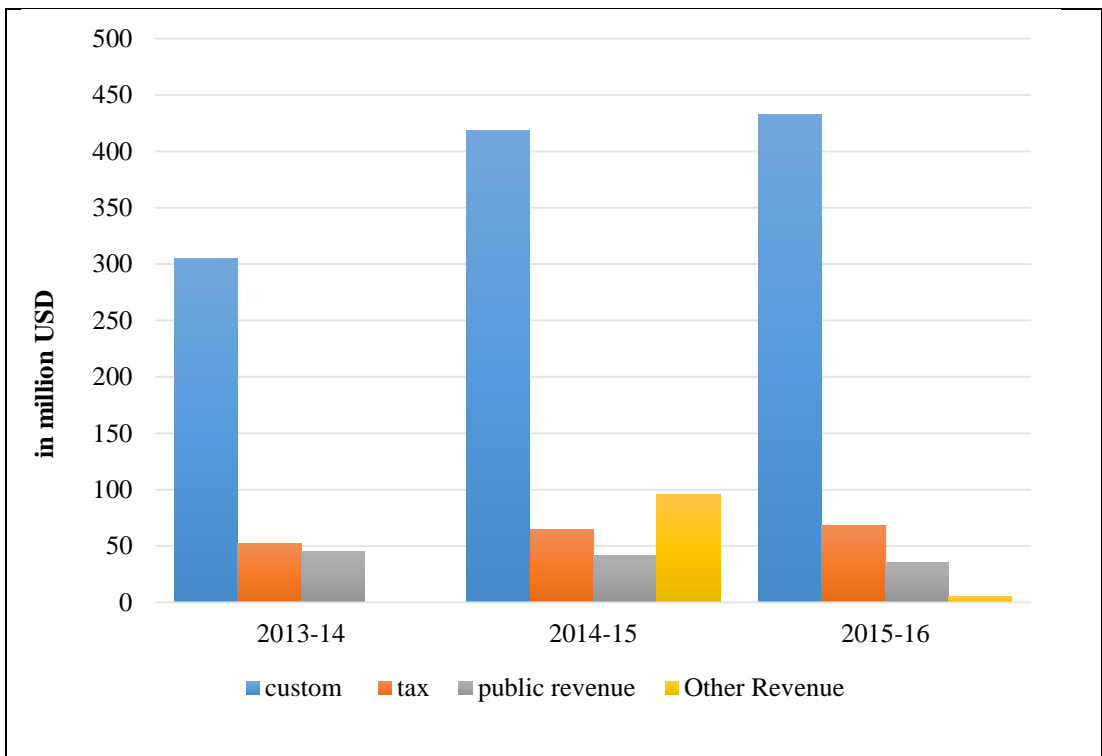
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<sup>11</sup> Article 16 of the National Budget Law Implementing Decree, 2008

1,180 people employees for the entire tax management throughout the country in 2006 has shown only 43 that located at headquarters (World Bank, 2007).

To be concise, the act of taxation is still limited because of the limited of modern mechanisms and update technological improvements, at the same time low technical capacity and expertise in this areas. Furthermore, it seemed that the lack of capacity in the areas of monitoring and enforcement of tax regulations leads to opaque practices that likely increase submission costs and reduces tax collections. In this sense, the compliance matters so far is that the assignment of administrative responsibilities in revenue collections. Practically, the definition in accordance to the type or locations of taxpayers which refer to the traditional tenets of soviet budgeting system.

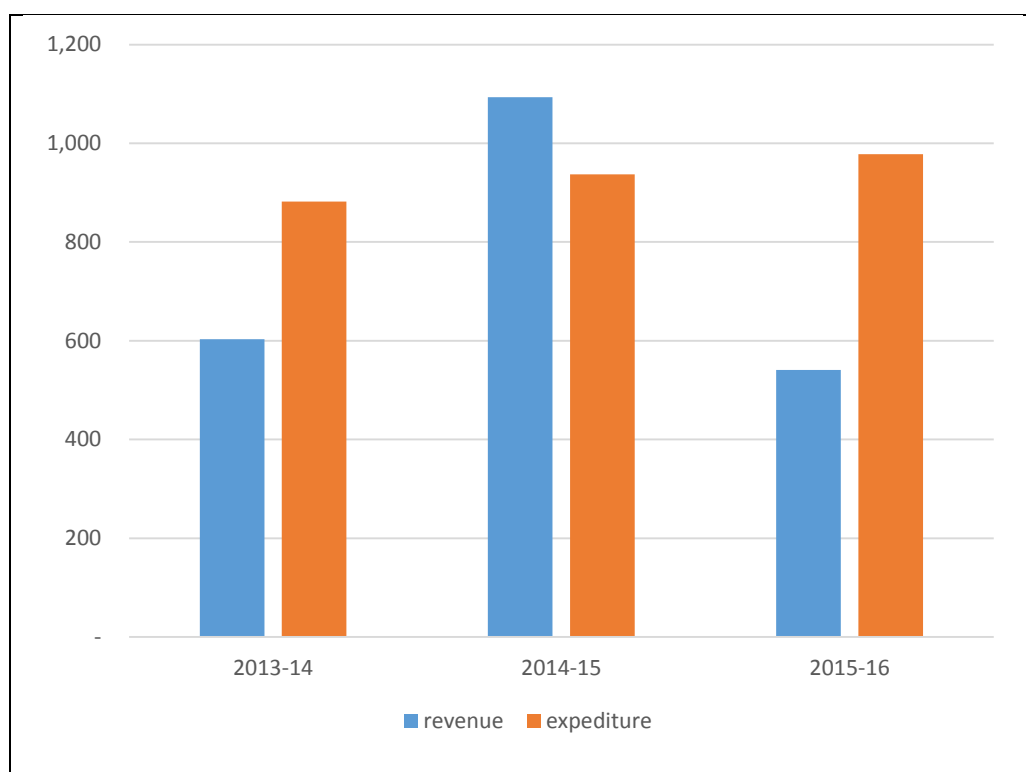
**Figure 5: Composition of Local Revenue in Lao PDR**



*Source: Ministry of Finance, MoF ,Lao PDR 2017(Adjusted by author)*

Among the system, the central government states the revenue targets and expenditure limits in each local administration. Basically, in theory the excess of revenue collection which over the plan are invented to be transferred to the central government. In the situation when revenue targets are not reached, it means the transfers to the central government are quiet expected to be complete; though the adjustment should be done solely under the level of local expenditures. Practically, however these rules are not applied also the collections under the target only indicate a decline of the transfers to the center. Moreover, if real collections are advanced than the target, so, 50% of the extra can be kept in the local administration, especially within the provincial level in order to finance capital expenditures.

**Figure 6: Revenue and Expenditure in Local Authorities**



*Source: Ministry of Finance, MoF ,Lao PDR 2017(Adjusted by author)*

Summarily, the financial resources for local administration given by central government remain relatively small. At the same time, there are no specified additional revenue, for instance taxation or another specific fees and charge have been transferred. Hence, in order to promote and sustain the system of finance in decentralization, local taxation should be initiated as vital financial instrument for the local levels of public administration in stabilizing their financial resource and minimizing financial dependence on local government.

## **Human Resource Development**

The government of Lao PDR had issued civil services regulation in obedience with the situation of the country that improving the management of policies toward local authority officials. Particularly, the government has been publicized Decree No.82/PM (19May 2003) on civil service of the Lao PDR (an amendment of decree No. 171/PM, 11 November, 1993). At the same time, the government had also distributed a number of regulations which is the basic to carry out the management among government officials; in the fields of selection, recruitment and disposition, grade and step determination, training, award granting, resignation, retirement and benefits allowed to government officials.

According to the Decree No.82/PM, 2003<sup>12</sup> mentions that government officials have the right to participated the training which will improve their skills and knowledge; for example, orientation, on job training and training for assuming new jobs. In this regard, all of the trainings is organized by central

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<sup>12</sup> Decree 82/ 2003 on public service regulations with supporting instructions. The instructions set out the responsibilities of public servants at central, provincial and district levels



government. Especially, financial supports from central ministries concerned. At the present, it seems that the specific training center for local official is limited; for example, local officials who work at district level office<sup>13</sup>. If the central ministries in each line conduct the training for each local branch, probably the official will be trained in their field. Nevertheless, it seems a few of chances to be trained in abroad if compared to those official who work at central level.

Under the Decree on civil service state that the government officials are citizens who are recruited and appointed to work permanently in the party, state and organizations at the central and local levels. In this meaning, they receive a salary and allowance from government budget. Nevertheless, the decree on civil service of Lao PDR does not spread on to the following group of officials. The government shall enact single decree for the disqualified groups as: 1) high-ranking officials (from vice-minister levels and above in the national government, provincial governors and vice-governors, mayors and vice mayors. 2) the military officials. 3) The police. 4) The employees of state owned enterprises, and 5) state employees working on prescribed basis. Additionally, the decree on civil service does not apply to all staff among the village level. As they are not considered as the local government officials.

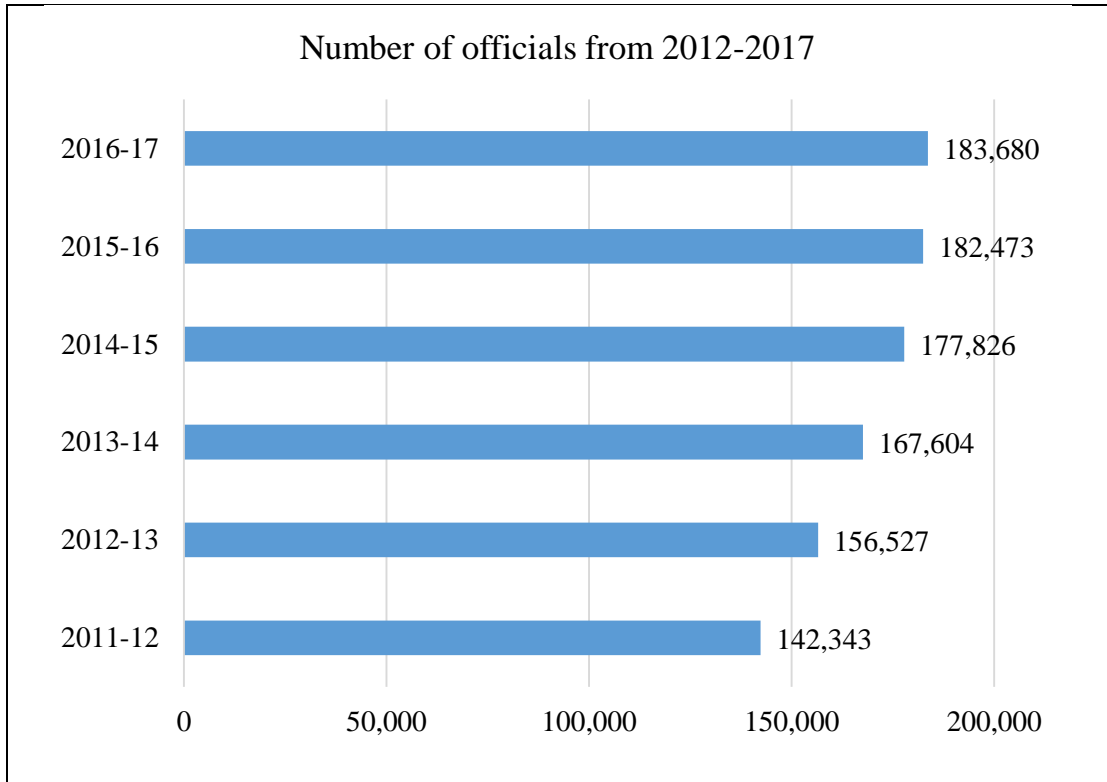
Since the growth of the national social economy, the number of government officials has been increasing speedily in recent years. According to the statistic from 2017-2018, the total Number of both central and local government officials was 184,168 people (about 3% of population), female: 84,745 and Male: 99,416. In this number was divided into 26,619 people in the

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<sup>13</sup> The terms of “office” is a bureau under the structure organization of district level—the basic tier of local government in Laos.

central and 157,542 people in local level (province 37,053 people and district 120,489 people).

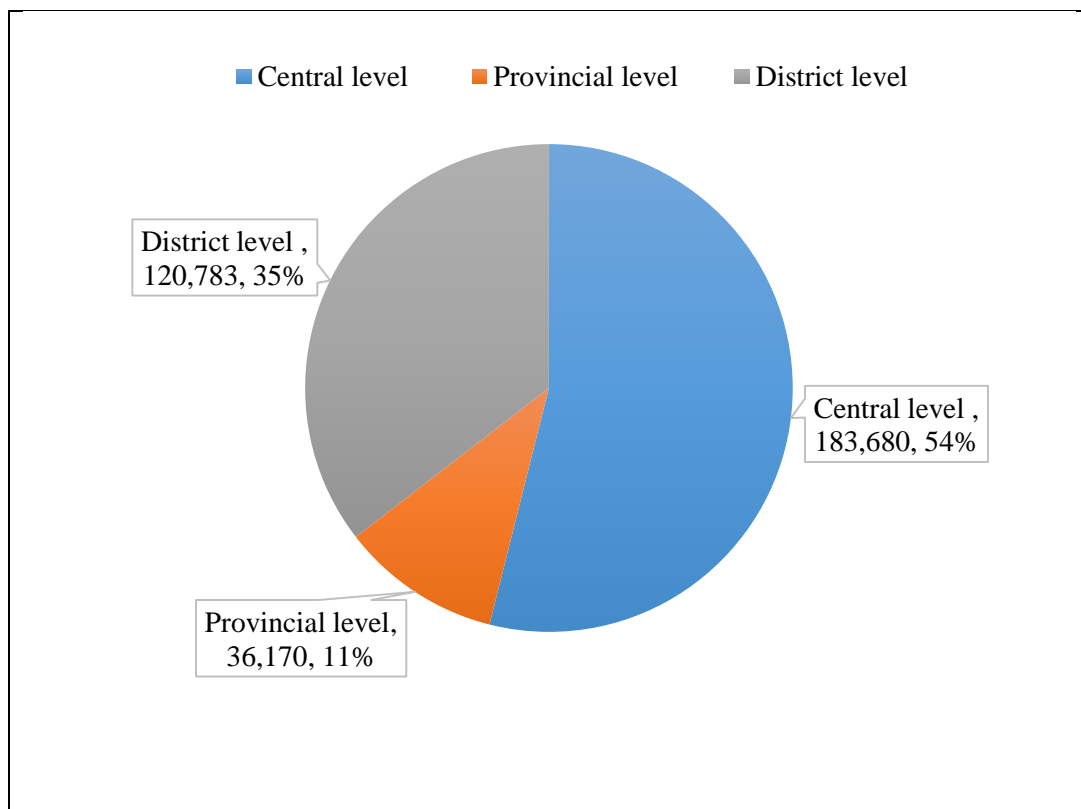
**Figure 7 : Comparison Number of Government Officials, 2011-2017**



*Source: Designed by the author based on the data conducted by MOHA, (2017)*

In these area, the number of government officials is tending to increase more and more. Government has enacted a policy for the government officials by raising the salary as well as an allowance (Decree 221/PM, 2012). Moreover, in general aspects of Lao citizen believe that the status of government officials is more stable and has important roles the general public organizations. Thus, the number of government officials Laos seem to be increased in the future.

**Figure 8 : Proportion of Central and Local officials in Lao PDR 2017**



*Source: Designed by the author based on the data conducted by MOHA, (2017)*

As the numbers of both central and local government officials has steadily increased year by year. Government has set up the new strategy on civil service management of the Lao PDR which is from 2011 to 2020. Beside this, government has laid out work plan in order to the upcoming challenge among the civil service management as below description:

Plan 1: improve all regulations (civil service management);

Plan 2: Develop and improve a human resource system in relation civil service efficiency and accountability;

Plan 3: Improve the system of salary, remuneration and another policies;

Plan 4: Improve and develop a civil service performance appraisal system;

- Plan 5: Improve and develop human resource;
- Plan 6: Improve and unitize technology in the civil service management;
- Plan 7: Enhance the ability among civil servant (female, handicap and ethnic civil servant);
- Plan 8: Enhance civil servant (health, safety and environment within work place);
- Plan 9: Enrich the collaboration among the region and international partner in civil service.

All of these work plans will be implemented in both central and local levels, to improve the civil service management. Beside this, these also aim to increase the capacity of civil management organization and in the field of the reform of public administration.

Summarily, human resource is considered as the most crucial issues in the area of decentralization in Lao PDR; Similar to another developing countries. Lao PDR faces various problems regarding to personnel issues. Nowadays, Personnel are vertically employed by different ministries and the equivalent-ministry organizations. According to this situation, it not simply to achieve the decentralization policy implementing among organization. More importantly, the training providing to government official is remaining weak and limited in order to improve both official and organization. Another aspects, central government needs to be systematically developed and strengthened at the central and local levels of public administration.

## **Civil Participation**

In the democratic procedure, local government is considered as the closest of organizational to local people. In this meaning, offering an opportunity to citizen in order to access the process of decision-making of local government. As mentioned earlier, the local government through concept of

decentralization that requires strong participation from citizens. Thus, less participations within citizens is considered as a difficulty in decentralization.

Normally, there are many kinds regarding to society participation from each country to another. In this sense, the common is participation in local elections which can happen through decentralization structure. This part will review local participation situation in Lao PDR. It will also emphasize the process of civil participation and the challenges among this country.

In the past, there is no local council with local administration, the communities are not fully able to elect their own representatives in order to perform their work as another countries. Therefore, all of the executive heads in each levels are appointed by central government. To be more understanding, at the provincial level the provincial governors are appointed by president upon the Prime Minister's recommendation ( Article 16, Law on Local Administration ). Similarly the district level, the chiefs of district are appointed by the Prime Minister based on the governor or mayor's recommendation. In this perspective, it seemed that the local authorities are not really accountable to their citizens. And it means the system would barely be able in order to create expansion more effectiveness due to a well appropriate of the preference within community.

Generally, Laos citizen are not interested much in relation participating in their community development as well as in contributing in the government's matters. The main reason is they do not understand much in the concept and process of decentralization and also the significant of their participation. Somehow in their opinion, all of the government's activities are must belong to government responsibilities. At the same time, government should be sanctioned by the government itself. Moreover, citizen do not have a chance to elect or dismiss directly their representatives as another countries. Participation

through local elections is still absent in local administration. It appears only in village levels as the chief of village is elected by the citizen under the village.

To conclude , local participation in Lao PDR remains weak. It can be said that local participation in Lao PDR is still a limitation in order to invite the participation from the local people. As the decentralization policy is beginning and long-term process. It requires time to move forward and gather both central and local levels and it seems not easy to be successful within short period of time. It can be seen that there are many hindrances occurred, all of these factors needed to be addressed and discussed more in detail.

However, the actual implementation has been inactive due to the legislation among delegation of authority and responsibilities within some central sectors seemed too general. In some localities did not enough take ownership at their local levels, at the same time, they were waiting for instruction from the central . Moreover, there is limited capacity of districts officials in the field of developing financial management and planning. To identify the pilot districts and village, there was not in accordance regarding to situations of the resolution and the instruction which from the higher authorities. Similarly, the dissemination of the resolution and instructional the local level were hindered. That leads to weak practical implementation by local citizen.

Regarding to our operation framework which determine whether the Three Build Directive policy<sup>14</sup> among local authorities is effectively working throughout the countries. Thus, the next finding would be discover the reason under the implementation. And we will look into the detail among 18 provinces for 2012-2014. Moreover information with regard to each response among the

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<sup>14</sup> Mostly, Based on 4 contents: 1) Political and Administration, 2) Economic, 3) Culture and Social 4) Defense and peace.

factors which are the information with regard to the finding are summarized as follow:

**Table 5 : Number of province working throughout the country for the Three Build Directive policy, 2012-2014 (piloting period Decentralization in Laos)**

No	Province	Strengths	Weaknesses
1	Vientiane capital	➤ Encourage an ability of officials in village level.	➤ Some of officials could not follow the central construction, regulation which related to three build directive policy;
2	Phongsaly	<ul style="list-style-type: none"> <li>➤ Provincial authorities has appointed the committee to create the plan and training( under the districts offices)</li> <li>➤ The provincial levels has assigned the official to assist the village's administration.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The less of awareness in the guideline and regulation are still existed among the local levels.</li> <li>➤ Official's responsibility is low and the shortage of leadership in performance.</li> <li>➤ The Shortage of Fiscal resource.</li> </ul>
3	Oudomsay	➤ The Organization Restructuring under the District level had been establish ( Departments, offices)	➤ The absence of the evaluation process in Some of Village levels.

		➤ Responsibility and benefit sharing to district level. ( Training for district officials)	➤ The demand of officials has increased ( it caused the unnecessary the number of officials
4	Bokeo	➤ Local revenue has increased among the village.	➤ Some of officials who work under the local levels are remained passive and rely on the central. ➤ The delay in performing the regular work.
5	Luangnamtha	➤ District and village have developed in the areas of administrative structure, training with the related decentralization regulation.	➤ Insufficient budget ➤ Lack of experience among officials. ➤ Some Units are not clear cut in delegation, accountabilities and responsibilities.
6	Luangphabang	➤ The increasing of awareness in district level units. ➤ Citizen under villages jointed the Piloting project in development	➤ Insufficient budget and not clear defining. ➤ The shortage of officials who will follow up the implementation at village level.
7	Huaphanh	➤ Encourage the Local Authorities more	➤ Poor Infrastructure, poor village are still



		accountability and subsidize their own development;	exist (54,81% of total village) through district )
8	Xiengkhuang	<ul style="list-style-type: none"> <li>➤ Emphasize the political structure among village levels for security the peace;</li> <li>➤ Encourage an ability of officials who are under security unit in village level.</li> <li>➤ Local revenue has increased.</li> </ul>	<ul style="list-style-type: none"> <li>➤ officials could not follow the central construction, regulation which regarding to three build directive policy;</li> </ul>
9	Xayabuly	<ul style="list-style-type: none"> <li>➤ Local authorities recognizes the guideline from central.</li> <li>➤ Both local officials and Citizens acknowledge their roles in participations.</li> <li>➤ Encourage the Local Authorities more accountability.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Among the large villages, it is difficult for local authorities to control and manage in the areas of delivery the purpose of policy;( Miss understanding )</li> <li>➤ Absence of budget regarding the planning background in villages;</li> </ul>
10	Bolikhamstay	<ul style="list-style-type: none"> <li>➤ The dissemination of regulations within province has been expanded both official and citizens.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The understanding of regulations among officials and citizens are not deeply enough.</li> </ul>

		➤ Local revenue has increased among the village.	➤ The shortage of skilled officer under village level.
11	Vientiane	➤ Both officials and citizen become more responsibilities	➤ The lack transparency of and accountability in fiscal transfer system and the legacy of near fiscal autonomy of the provinces . ➤ Skilled official are still limited.
12	Khammuan	➤ The dissemination of regulations within province has more increased.	➤ Fiscal management and benefit sharing. ➤ Lack of Human resource development
13	Savannakhet	➤ Local authorities' administrative structure has developed both district and village ➤ Province has assigned more official within organization especially district level.	➤ Fiscal resource is not sufficient.
14	Saravan	➤ Targeted village have been improved in kind of product to market	➤ Lack of Human resource development
15	Sekong	➤ Local authorities, especially district and	➤ The ability of civil servant at district and

		village levels have more awareness to perform the decentralization policy ( more accountabilities and benefit among local resource management)	village levels are still limited. ➤ The encouragement of policy implication among local levels perform not well enough.
16	Champasak	➤ Local authorities' administrative structure has developed both district and village	➤ Lack of Human resource development ➤ Absence of budget regarding the planning background in villages;
17	Attapue	➤ Local authorities' administrative structure has been reconstructed and developed. Mainly in village level.	➤ The ability of local official is still limited( stick with the old working system) ➤ Lack of the facility in office. ➤ The absence of the leading in Some of the accountabilities transferring, delegation in local branch ( villages) ➤ Insufficient Budget in the field of evaluation work in village level.
18	Xaysomboun	NA	NA

## 5.4 Strength and Weakness of Three Builds Directive in Lao PDR

### Current Situation of Decentralization

Since Lao PDR has implemented the Three Builds Directive , The Prime Minister Ordinance No.34/PM, 2016 (23 August 2016)<sup>15</sup> and together the Ministerial Instruction No.02/MOHA, 2017 has been issued in order to strength the decentralization enactment throughout the country. Particularly, the meaning of these regulation has highlighted as follow : to Formulation of Province as the strategic units in 5 to 10 provinces , District as comprehensively strong units in 2 to 5 districts , and the village as development units in 2/3 of the total of villages” by 2020.

Together with the 8th Five-Year National Socio-economic Development Plan (2016–2020) ‘8th NSEDP’, is a state to implement the Resolution of the 10<sup>th</sup> Party Conference which also emphasize the extents from the former plan that expect to be accomplished. In the area of plan also imitates the Socio-economic Development Strategy until 2025 and vision 2030, it means the aim to build a new foundation for advancing from LDC status by 2020 to become an upper-middle-income country by 2030.

Hence, the 8<sup>th</sup> NSEDP is a significant tool that to assure the national defense and development of the Party’s new guidelines. Moreover, the 8<sup>th</sup>

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<sup>15</sup> The encouragement of implementation among all targeted ministries, equivalent organization (ministers), governors follow the instruction No.25/CPP 2014, (to encourage 3 build to widespread throughout the country, administration and management among state more center under the appropriate delegation.

NSEDP is also the result of the breakthrough in mindset of Government. It means an outcome based on plan which resulted from research. Thus, in this plan has constructed with the clear outcomes and outputs of development corresponding to the sector as well as development plans of provincial level that should be able in order to ensure harmonization in performance planning within provided sources of funding. That include a budget of government, grants and loans, domestic and foreign investment and also financial investment system. In this plan has also complemented the evaluation and monitoring framework to keep track of progress which can be a references for all stakeholder to support an evaluation of implementation.

## **The Organizational Restructuring of Decentralization Committee**

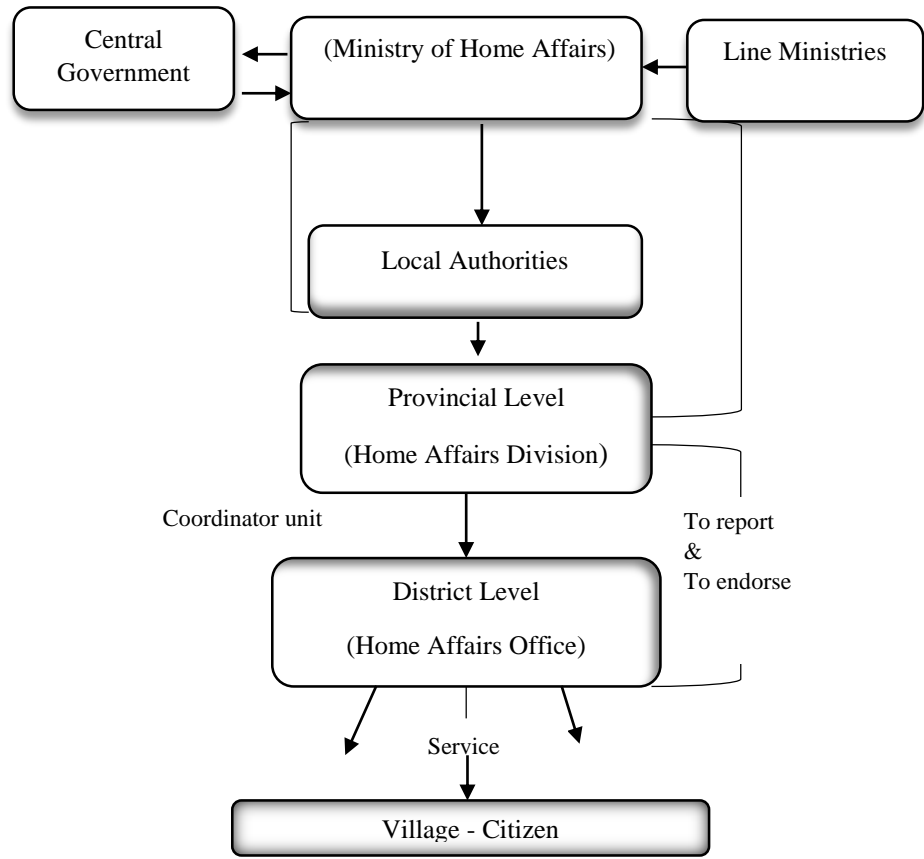
**Government:** To organize the research plan, follow up and encourage the central and local government in order to carry out the Decentralization policy as “Build the province as the strategic units, the district as the planning and fiscal units” and then regularly report to Ministry of Home Affairs in the process of implementation.

**Provincial Level:** Home Affairs Division has assigned to be the secretary of Central government, in terms of the coordination units among related organizations at provincial level. At the same time, Home Affairs Division has to report the situation of “Build the province as the strategic units, the district as the planning and fiscal units” implementation. And then regularly report to Ministry of Home Affairs in the process of operation.

**District Level:** Home Affairs office has assigned to be the secretary of Central government in terms of the coordination units among related organizations at district level. At the same time, Home Affairs Offices has to report the situation of “Build the province as the strategic units, the district as

the planning and fiscal units village as the implementation units” implementation. And then regularly report to Ministry of Home Affairs in the process of operation.

**Figure 9: The linkage of government organization ( Three Builds Directive )**



*Source: Dawned by the author based on the current situation, Laos (2018)*

### Central Government

To translate all legal document which issued by government. Then, The Party Resolution No.25/CPP 2014 (22 Dec 2014), together with the formulation

of Prime Minister No34/PM, 2016<sup>16</sup> which aim to support the “Three build directive” in kind of strength implementation throughout the country is also issued. Continuously, Ministry of Home Affair (MOHA)<sup>17</sup> on behalf of core organization and operation in charge of implementation decentralization policy, MOHA has published the Direction No 02/MOHA, 2017. And the central government has organized the official meeting in the meaning of the outcome reporting of decentralization implementation throughout the country on April, 2017.

According to the meaning of meeting defined that Three Build Directive policy as regular tasks among the Ministries, Mayor and Governors. In the areas of coordination units among central government as Ministries and organization, an office of each ministries is a main accordance units. In Local authorities, Provincial level (Department of Home Affairs and District level, Home Affairs Office); as responsible for reporting to provincial governor and mayor. In term of budget planning which related to the decentralization implementation, all of Ministries, Ministry-equivalent organizations, provincial and capital generate the annual plan of each organizations.

## **Local Authorities**

According to the meaning of decentralization policy which delegated more in kind of the role and accountability among local authorities. it aimed to build up the capacity building of local officials, in order to perform better public administration and service delivery. Together with the linkage of region and

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<sup>16</sup> The enforcement of the formulation applies to both central and local government in Lao PDR.

<sup>17</sup> MOHA is assigned to take lead in cooperation as a secretary of government to encourage of the implementing.

international has been growing day by day. It requires the representative organization under citizen's need. As well as to complete The 8<sup>th</sup> NSEDP guidelines and law application. Thus, in 2016 the operation of local people's council was occurred to accommodate the problem within the citizen. This meaning is related to the amended of constitution as defines "Local authorities has to react the central government and "Local People Assembly". To be concise, the formation of local people's council is aimed to empower the right and democracy within the citizen through the administrative of government, economic, society at local levels. It means that citizen have more right to access the benefit which is from service delivery in effectiveness aspects.

In 2020, to translate the prospective which related to the constitution, instruction, regulation of decentralization policy. Provincial level has issued the regulation that support the local administrative among district division and official. Consequently , there are some province has translate the aim of the instruction No.25/CPP 2014, (to encourage 3 build to widespread throughout the country, administration and management among state more center under the appropriate delegation and The Prime Minister Ordinance No.34/PM, 2016).that more specifically apply in each province. For instance, xiengkhuang and xayabuly province.

Under the provincial level, in each province has selected the target district to build the District as comprehensively strong ; in total 75 districts ( piloting districts 37 and new target districts 38 ) and the village as development units, target village 1388 villages as piloting village 66 villages.

Vientiane capital and all provinces coordinates with each districts in order to continues restructure the 5 units under the village administration. Currently, most of the villages has already developed their organization structure. Together with during the piloting period on Three Builds Directive, line ministries has transferred the official to be the chief of village in some



village. After the end of piloting, some of them have returned back to their work but some of them has been assigned to work as a chief of village ( 59 officials ).

Overall, In order to delegate and transfer the responsibilities in appropriates terms; among the ministries has to define their role and accountability which related to the direction. At the same time, they also needed to develop the structure of administrative and divide up the responsibilities management towards provincial division and district offices in their line ministries. Based on the outcome of implementing during piloting period. In each ministries have been revised their regulations in the area of “Three Builds Directive” policy as following:

**Table 6: The number of legal documents issued by government-stage by stage(Based on the success elements of decentralization, UN)**

<b>Elements</b>	<b>Piloting period (2012-2014)</b>	<b>2015-Current</b>
<b>Legal Framework</b>	<p>The decentralization policy has covered in widespread after the promulgation of the Party’s Resolution No.03/CPP in 2012. In this sense, 15 central ministries, 17 provinces - including Vientiane capital. 51 provinces and 109 villages are selected to be the target.</p> <ul style="list-style-type: none"> <li>- The instruction No.25/CPP 2014, (to encourage 3 build to widespread throughout the country, administration and management among state more center under the appropriate delegation;</li> <li>- The Prime Minister Ordinance</li> </ul>	<ul style="list-style-type: none"> <li>- The amended State Budget Law 2015.</li> <li>- The amended Law on Government 2015.</li> <li>- The amended Law on Local Administration 2015.</li> <li>- The Law on Provincial People’s Assembly (PPA) 2015, the draft Regulation on City and Municipality and the Investment Promotion Law</li> </ul>

	No.16/PM/2012 on piloting the Formulation of Province as Strategic Units, Districts as Comprehensively Strong Units and Village as Development Units, - The Ministerial Instruction No.01/MOHA/2012 and so on.	2009 under ongoing review. - The Prime Minister Ordinance No.34/PM, 2016 (23 August 2016). - The Ministerial Instruction No.02/MOHA, 2017
<b>Fiscal administration</b>	- The Ministerial Instruction No.2202 /MoF/2012 on piloting Three Construction in Financial Sector. - The Ministerial Instruction No.206/MoF, 2014 on Financial Village. <sup>18</sup>	- Ministry of Finance: The Drafting of Ministerial Instruction.
<b>Human resource development</b>	- The Prime Ministerial Decree 82/PM, 2003.	- The law on civil servant 74/NA, 2015
<b>Civil participation</b>	- NA	- Established local people's council assembly

Aside from the surveys, a survey questionnaire was also directed in order to have more information in the areas of strengths, weaknesses and challenges in applying the Three Builds Directive policy in Laos. Thus, these may offer a different perspective as those interviewed are those officials who directly

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<sup>18</sup> The regulation of revenue collection among local authorities( Local : 20%, Central: 80%, the benefit sharing which from revenue collection in village - 40% for village and 60% district)  
 The revenue in international border -to local authorities is 10%, but the revenue in local levels is belong to the provincial revenue and then share to district 40%.

involved the field and implementation. Therefore, a summary of responding within the interview guide questions is provided as following:

**Table 7 : Summary of interviews**

<b>Interview Question</b>	<b>Response ( Translated)</b>
What do you think about “Three Builds Directive” implementation?	<ul style="list-style-type: none"> <li>- (Three Builds policy) is well known as “Sam Sang” in Lao term, it is devolution mechanism has been launched in Lao PDR since 2012, which is a critical policy for socio-economics growth, especially strengthening local governance</li> </ul>
How do you compare the different of “Three Builds Directive” to the previous period?	<ul style="list-style-type: none"> <li>- Central government has delegated more power and responsibilities to Local levels.</li> <li>- Local Authorities has more ambitious to develop their own potentials and more awareness of self-rely</li> <li>- The Establishment Local People’s Council</li> </ul>
How do you think “Three Builds Directive” impacted the performance of local authorities?	<ul style="list-style-type: none"> <li>- Local Authorities have to put effort as responsibilities has more increased, at the same time local Authorities could be satisfy the sense of ownership</li> </ul>
Would you think the framework is matched “Three Builds Directive” implementation?	<ul style="list-style-type: none"> <li>- Not really, since it is a new practice in Laos, therefore it needs more guidance and adequate legal frameworks</li> </ul>
Do you think administration capacity, fiscal management, human resource development and civil participation	<ul style="list-style-type: none"> <li>- fiscal management</li> </ul>

needed in decentralization in Laos? ( Please select the most important one)	
What are the adjustment that central government have to be consider in relation to the procedure of “Three Builds Directive”?	<ul style="list-style-type: none"> <li>- Some Ministries and departments in the central government merely maintained some of power and the benefits sharing has not transferred to local as defined in the political aspects of the government</li> </ul>
Would you said that Local authorities are implemented well in the area of “Three Builds Directive” policy? ( which province )	<ul style="list-style-type: none"> <li>- Some provinces has been implementing Three Build Directive policy in effectively ways according to their performance, such as: Xayabouly, Champasack, and Luangprabang. ( in the total : 18 provinces)</li> </ul>
What are the major issues encountered by “Three Builds Directive” policy?	<ul style="list-style-type: none"> <li>- Fiscal management issue</li> </ul>
What are the main challenges the government face in “Three Builds Directive” so far?	<ul style="list-style-type: none"> <li>- Some ministries and departments are not willing to delegate their power and responsibilities to local levels.</li> <li>- Local Authorities has limited knowledge and capacity in order to manage bigger issues.</li> </ul>

How “Three Builds Directive” contributes to the development of public administration in Laos PDR?	<ul style="list-style-type: none"> <li>- Local level has gained more revenues, and power to manage their own resources.</li> <li>- Local authorities has allocated budget in appropriately within the need of communities (develop livelihood and well-being easier).</li> <li>- Better service delivery to citizens</li> <li>- Promote democracy through ownership of the communities.</li> </ul>
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## 5.5 Summary SWOT Analysis

The following table will summary the foregoing finding form the application, survey and in-dept. interviews conducted:

**Table 8 : SWOT Analysis of Study and Survey**

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none"> <li>- The presence of Law and regulation law which support the implementation in each Line Ministries.</li> <li>- Accountability of public administration are significantly improved.</li> <li>- Strengthen central-local relations on revenue administration and expenditure management;</li> <li>- Improving responsibility separation in development</li> </ul>	<ul style="list-style-type: none"> <li>- The dissemination among the legal document such as The Prime Minister Ordinance, the constitution are not more expand enough; ( inappropriate plan when implemented in local levels)</li> <li>- Some ministries and departments are not willing to monitor and evaluate their work at the field, it cause the ineffectiveness among local authorities management.</li> </ul>

<p>and implementation of finance-budget task between central-local levels;</p> <ul style="list-style-type: none"> <li>- Potentials Promotion of local level in order to enhance capacity to explore more resources for local development;</li> </ul>	<ul style="list-style-type: none"> <li>- Governmental structure and administrative organizations, some ministries, authorities, agencies were overlap and duplication of roles and functions;</li> <li>- Responsibility in each organizations or local are not linked to the regulations, low decision making, release work to staff who work on this task only;</li> <li>- World economic has changed but somehow who work in this task do not adjust, modify or use new techniques to manage the tasks and others.</li> <li>- There is a slow progress in implementing the break through on regulations and governance. The outstanding issue concerns macro-management.</li> <li>- The Coordination between ministries, central and local branches is still weak. ( lack of regularly monitoring process).</li> <li>- At present, the government body is gradually expanding but quality and effectiveness are still low.</li> </ul>
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	<ul style="list-style-type: none"> <li>- There are many pending issues in the delay salary. ( insufficient budgets)</li> <li>- Technology and information has expanded widely, but Lao PDR still lacks proper management measures, which caused adverse interference from external parties.</li> <li>- The fiscal administration is not clear enough, some terms seemed to be confusing especially to build the district as financial unit of province; mostly still depend on the provincial unit as before.</li> </ul>
<p><b><u>Opportunities</u></b></p> <ul style="list-style-type: none"> <li>- Continue to boost the development in both pilot districts and villages and extend the lessons to other districts and villages based on economic potentials and criteria of each localities.</li> <li>- Line Ministries and provinces continue to align the three builds directive in regularly planning and program.</li> </ul>	<p><b><u>Challenges/Threats</u></b></p> <ul style="list-style-type: none"> <li>- The provincial budget is currently consolidated by sector, leaving the districts with very limited scope to allocate resources accordingly to local needs and priorities;</li> <li>- Set up the monitoring system in order to amend a Benefits sharing between provinces, districts and villages not appropriate;</li> </ul>

<ul style="list-style-type: none"> <li>- Ministries and local authorities continue to consider and evaluate the implementation of three builds directive. It means the working procedure is more effective in further development.</li> <li>- The government upgrade the skills of local officials, especially in districts, as they work on the pilot projects.</li> <li>- Local Authorities is more ambitious to develop their own potentials and more awareness of self-rely so far.</li> </ul>	<ul style="list-style-type: none"> <li>- Reconsider the Responsibility assignment between central-local levels in some sector to be clear than before.</li> <li>- Emphasize the Capacity building both Central and local level. Especially financial officer.</li> <li>- Strengthen the coordination with line ministries and provinces to link the three builds directive with planning and budgeting.</li> </ul>
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## 5.6 The Outcome of Implementation

Shortly speaking, the implementation of “Building province as strategic Unit, District as a strong comprehensive units and village as a development unit” was in pursuit of the Resolutions of IX Party Congress, Particularly, building and promoting local ownership. Thus, the Party’s Central Politburo issued the Resolution No.03/PCP (15 Feb, 2012) according to “Building province as a strategic unit, district as a strong comprehensive unit and village as a development unit” and the Government issued the Prime Minister’s Instruction No.16/PM (15 June, 2012) The piloting launched in October 2012 and completed in early 2015. In this regard, 15 ministries, 51 districts and 109 villages for piloting from 2012 to 2013. Since three years of the execution, as well as many sectors among central and local levels. Together, populations have put their consideration in the field of practical aspects of Three Build Directive which are the contributing factors in kind of development prospective among local infrastructure and inclusive change that can be seen as bellows:

- Target ministries and all of provinces has developed the principles regarding to the division of responsibility within central and local levels. Mostly, the benefits sharing both revenue and expenses management at local levels and budget distribution at district level. In this sense, there has been a committee in charge of supervising piloting activities in each sector among locality, at the same time, performing as a focal point for coordinating, supporting and monitoring the definite movement of targeted districts and villages, mainly the division of accountability to each level that caused in steady increase in local ownership.
- 15 target ministries have sent their officials for local visits, in short and long term, to build stronger localities, especially in the areas of

administration, justice, district and village level fund management, and to build a socio-economic development plan and manage government invested projects at village level.

- 943 government-invested projects were employed at the Three Builds district and village levels, with total investment funding ( 248 billion kip), to support the conditions of developments.
- Party organization and those at village level as well as other working units within the experimented three builds villages have been restructured for all aspects, such as leadership, strengthening political thinking and management working styles toward well sense of ownership and accountability of staff at village level.
- The prospective of localities has been explored and expanded, mainly the increase in production; organization of production groups which link to professionals. bank credits and marketing are also increased. Granting of ownership, responsibility and interest sharing to targeted districts and villages has been started; especially, the collection of income for the national budget increased in every district and the targeted 3-builds villages.
- The Policy Bank has supplied loans to people for the amount of 261,65 billion kip to promote commercial productions.
- Poverty reduction of the population and the construction of development villages have developed, as shown in poverty evaluation and development results from Decree 309/PM in 2014, stated that there are remained only four poor villages (Saiphuttana village, Sing district, Bokeo province; Phienghong village, Nonghad district, Xiengkhouang province; Pajudon village, Taoy district, Salavan province; and Xiengluang village, Dukkung district, Xekong province). There are 1,322 poor families, 82 development villages, 109 crime-free villages and 98 traditional village.

## Chapter 6: Conclusion

The analysis mainly in chapter 5, both prospects and impediments for decentralization in Lao PDR were discovered as a clear illustration. It seemed that decentralization will be successful in some extent if all hindrances can be tracked. In order to find these hindrances, in this chapter will emphasize policy proposal to the Lao government, mainly the Ministry of Home Affairs (MOHA) in some ways to accelerate the decentralization policy. At the same time, it is followed by conclusion of these research at the final part of this chapter.

### 6.1 Finding

The Research question raised in Chapter 1 were as follows: How has “Three Builds Directive” Policy been transferred to local authorities? What are the strength, weakness, opportunities and threat, challenges that government faced in the implementation of “Three Builds Directive”? What factors should the central government use to apply for successful decentralization? To answer the research question 3. The finding of this research will be discussed as following:

#### **The legal framework and administrative capacity**

According to UN (2000), mentioned the legal framework is considered as a main factor Under the implementation of decentralization. During the first period, it has been absent in the field of legal framework and process as fundamental support. At the same time, there is no specific law on decentralization. It seemed that only two main legal documents such as the Prime Minister’s Instruction No.01/PM, 2000; and The Party’s Resolution No.03/CPP in 2012) which not facilitate the policy of decentralization well enough. In this sense, these two legal documents are only fundamental of

regulatory the targets ministries in order to decentralize the tasks. Beside this, the clear demarcation of function among central and local administration is not precisely clarified under these two legal documents. More deeply, the existing laws do not support the situation of decentralization policy. Therefore, central government should be consider in the area of law and regulation; they need to be enacted to subsidies the process of policy. At the same time, some articles of existing laws mainly the Law on Local administration and the Law on government, 2003 should be amended in order to clearly define especially the division of responsibilities, or which of them should be retained at central government and which ones should be delegated to local authorities.

After the piloting period, there are many legal document publishing namely The amended Law on Government 2015, The Law on Provincial People's Assembly (PPA) 2015, the draft Regulation on City and Municipality and the Investment Promotion Law 2009 under ongoing review; The Prime Minister Ordinance No.34/PM, 2016 (23 August 2016), The Law on Provincial People's Assembly (PPA) 2015.

Under the Ministry of Home Affairs, MOHA on behalf of core organization and operation in charge of implementation decentralization policy, MOHA has published the Direction No 02/MOHA, 2017. At the same time, to contribute the meaning of three build directive policy, the Law on Local Administration 2015 and The Law on Civil Servant 74/NA, 2015 has amended together with the area of the assign, move of the local authorities officials, from the vice of governors, chief of division levels, chief of district and vice chief of districts and another administrative position. The central has assigned to local authorities to account in these tasks. In 2016, there was a changing among the administrative of civil servants which form 5 tasks (in 2005) to 9 tasks. These defined that among Ministries, Ministry-equivalent organizations and Local authorities directly response and make decision within their organization.

## **Fiscal Administration**

As the United Nation, 2000 claims that financial resource are the one of the most significant Factors in decentralization application. In the case of missing these resource decentralization will not be successful. In Laos, the financial system is based on the centralized system with the reason of the disparity income between the local government units (LGUs). All revenues of each LGU have to be submitted to central government in order to balance among another LGUs throughout the country. Next, central government will allocate to Local levels which base on the priority of the central Government. Practically, these amounts of budget allocation are insufficient compared to the requirement of local levels. Subsequently, many LGUs could not implement their own projects as they has planned. Thus, the central government has a commitment of transferring more financial resource to local administration; however, it failed of the stage of implementation.

Moreover, there are no specific additional revenue, such as taxation or another specific fees and charges have been transferred. Hence, to promote and endure financial decentralization; Local taxation should be introduced and also views as vital financial mechanism for the local levels among public administration in stabilizing their financial resource and minimizing financial dependence on central government. To be concise, without an adequate self-generated the source of revenues which are generated among local administration ( taxation, fees and charging for funding local expenditures); it means local administration will not be able to become a strong entity and will persist financially dependent on central government's transfer funding that are normally associated with party-political conditionality.

In 2014-2015 ( piloting period), among Three Build districts have collected revenue that exceed than the First plan around 31 district which total

59, 61 %; as following: parklaiy district, Xayyabuly Province; Paek district, Xiengkhuang Province; and Bolikhan district, Bolikhamsai Province. Under these 3 district, their revenue collection increases 3 times if compare before the piloting period. In the village level, they have collected the revenue which exceed the plan around 42 villages, total 38,53%. The Potential district that can be the budgeting units depending provincial level, in Vientiane capital is 30 district in total 57,69%; Self-dependence district 7 districts, is around 13,46%. The benefit sharing in 40% to village, 12 villages around 11,01%. Developed village 93 village is around 85, 32 %.

From 2015-2016 the revenue collection of province and district will not follow the Ministerial Instruction No.2202 /MoF/2012 on piloting Three Construction in Financial Sector; especially, the costume revenue collection, tax collection to district. That means local authorities revenue will be decreased.

As already mentioned in previous section, in each targeted ministries have to reconsider their role to issue the Ministerial Instruction regarding to delegation and accountability to its local branch for implementing decentralization policy. Currently, Ministry of Finance is working on the draft of the Instruction in the area of delegation and benefit sharing of revenue collection among local levels after the piloting period is ended.

### **Human resources**

Recently, Lao government set out its aims to develop and modernize the country and enhance human resource development by building up a job performance of the government officials. In addition, most of rural development tasks are implemented within the local level, thus, the ministries and agencies at the central level should consider and support them in terms of policies, encouraging and responsibilities to local authorities, allocating staff.

As mentioned earlier, the number of civil servants increases year by year, while the Financial resources which provide for salary and allowance supporting are limited and sometimes the government cannot pay salary to its civil servants as scheduled and time frame. Particularly, in the rural area-district levels (teachers who work in the rural district). Additionally, the number of civil servants who work under local administration which covers 84% of the total amount of civil servants. In this meaning, it is considered as very high number but the distribution is not appropriately managed throughout the country. To be more understanding, a large number of civil servant has worked in urban areas which is better basic infrastructure, while in rural areas as the number is too small.

Following this, there are the factors in the filed of motivation and incentives among Laos's government officials are quite low. If compare the cost of living which increasing year by year; the monthly minimum wage is considered as small and could not subsidize the living. Beside this, the promotion is automatically done every two years, as well as it not always based on the field of professional responsibility and performance. Thus, sometimes it brought ineffective work performance by some undisciplined government officials.

Additionally, it seemed that the training for government officials are still limited and weak because of budget inadequate. Consequently, both central and local government needs to be systematically developed and reinforced in order to encourage the public admiration reform in Lao PDR.

Furthermore, there is absence regarding separate legal status between central and local government officials in Lao PDR. It can be shown that all high ranking position within local levels, namely provincial governors, districts chiefs, provincial department's chief are dispatched from the central government. Most of them are under control of central government with the

same regulation which is known as the Prime Ministerial Decree 82/PM, 2003. That mentioned personnel are vertically employed by different ministries and the ministry-equivalent organizations.

Thus, Government made improving the effectiveness of public administration and enhancing the quality of service delivery as civil servant performance through the modernization of systems by enhancing the civil service incentive and reward system. These principle have been operationalized under Ministry of Home Affairs (MOHA) that will be implemented over the period 2010-2020, with the meaning of many significant reforms in order to strengthen the civil service expected in next five year. The keys aim is including improvements in human resource policies and planning, salary reform, and enhanced performance management. It was believed that these system will attract and motivate qualified personnel. By the way, Civil service reform is difficult reform agenda in developing country as Lao PDR. When the implementing are processed, it is clearly incident that problem is remaining in the issues of lack of motivation in civil servant performance. According to this problem, government has tried to find the solution and clearly follow up the implementation in order to reform the principle of the guidance in further implementation.

Basic term, human resource management is complex matter in term of the recruitment policy, promotion, career path, training and so on. That means financial incentives may somehow not to be considered at all. For some invent, salaries can generate perverse incentive which lack of contribution in motivation and performance. In 2012-2013 the Lao government started to increase in salaries and benefits of civil servants which a part of the plan to increase the compensation over three years from 2013-2015. It seemed that the salaries increasing has been justified to attract officials with the required skill from outside employment to supplement incomes. Based on the study of World



Bank 2010 found that the compensation in formal salary for civil service workers was below than private sector comparators. Nevertheless, the study also documented a strong perception within civil servants that the remuneration was not sufficient their basic expenses as much as possible.

In the decree 82 does not include a comprehensive term of all form in non-salary compensation but the most of monetary allowance Such as four allowances (job title, gasoline, telephone, and electricity and water vary by position or rank) all of these allowance are distributed on monthly as a coupon, only the gasoline allowance is given to technical staff and manager position, mobile telephone allowance is provided only high position and water and electricity is provided only political officials.

Quite obviously, the civil servant basically felt that their formal compensation packages Which comprise base salary and allowance are still too low. At the same time, failing to keep up with rising living costs at least they want to cover basic expense. Regarding to monetary and non-monetary factors that claimed to attract civil servant to work with government such as compensation levels, in-kind benefits, job security and work environment. In contrast, since their formal compensation packages are still too low. At the same time, one of factors that the civil servant are facing salary freeze especially local levels; it can dampens the motivation of worker.

To conclude, Human resource development by Motivation and incentive in civil servant in Laos are quite low as a monthly minimum Wage is considered as low if compared with current cost of living; that seem to go up year by year. At the same time, the number of civil servants rapidly growth, While financial resource for Salary and allowance support in government are still limited. Beside this, the government sometimes cannot pay salary to civil servant as scheduled. Even through, government try to adjust the salaries more

in fiscal now. So, the result of implementation plan is still face a number of challenge and constraints.

### **Civil Participation**

Citizen participation in designing public policies, and in monitoring and evaluating their impact can improve the quality of the action, government strategy particularly where there are different local needs, through simplifying better local information, local contribution and local council can strengthen its policy-making. Policies that are more focused and more specific provide better opportunity for successful implementation.

Following this The United Nation (2000) argues that civil participation is the last of the successful factor for the implementation of decentralization. In Lao PDR, the strong of participation within community is still missing; Because of civil participation was not invited to participate in the decentralization process. For example, among the rural area the terms of participation, decentralization, democratic elections and administration reforms are new and it takes time for deeply understanding. In order to learn the meaning of these concepts and invent them into practice field in Laos's context will definitely take several decades. In terms of the Lao media mainly reached the urban educated people which is around 33% of the total area of the country. More than that the concept of decentralization is not well known among local people. In that sense, they seemed to be neglect instead of consider as their role of participation in contrast they defined that is a government tasks and it should be sanctioned by the government side. Moreover, participation seems to be less meaningful for society. All of these factors is remaining a constraint on local participation.

Legally speaking, participation among citizens both public and private sectors are still Limited form the beginning. Therefore, in corresponding to the

situation, the Establishment of Local People's Council has been occurred at local level. In this regard, Local people's council is the representative of rights and interest of Laos's citizen. It called a state local organization. Under the Local people's council consists of People Council of provincial, district and village levels. Then, The National Assembly may decide to establish a Local people's council district and village levels. Beside this, among the people council of provincial has the term as the National Assembly.

## **6.2 Conclusion and Implication**

First of all, As the legal framework is a fundamental for decentralization in other countries. In Laos, however, the legal framework is still limited. Even through the government has decentralized for almost ten years or more than. It can be seen in discussion in Chapter 5, there is no specific law on decentralization in Lao PDR. Only based on the two main regulation as the Prime Minister Instruction No. 01/PM in 2000 and the Party Resolution No.03/CPP in 2012. Beside this, the laws do not support the implementation of decentralization as much as it can from previous time. Thus, government tried to amended more regulations and laws urgently among central government and line ministries.

At the first stage, the existing legal documents need to be ready in order to apply for piloting period, projects. To doing that all targeted ministries needs to revise and re-check their previous regulations. These revising will enable them to understand which part of their regulations will be revised and also what kind of new regulations should be enacted to facilitate the decentralization policy. After that, these ministries should be consider more effectiveness laws and regulation that will be enacted and based on the lessons learnt from the piloting period. In order to the main existing laws need to be amended clearly and sharply define each division of responsibilities such as which one should

be retained at central government and which one should be delegated to local authorities.

Following this, the significant factors in decentralization are the financial resources. In order to promote and sustain financial decentralization. First of all, local taxation should be introduced as a vital financial instrument for local administration in stabilizing their financial resources and minimizing financial dependence on central government. Therefore, without adequate self-generated-source of revenue which are generated from local taxation, fees and charge for subsidy local administration expenditures. Local administration will not become a strong object. At the same time, it will remain fiscally dependent among central government's fund transfers which are normally associated with political conditionally.

Public distribution of national budget information should be open to improve public accountability and transparency. In order to do that the regulatory framework on financial decentralization which need to be more promulgated especially within local administration. So, Ministry of Finance as main actor to be consider the benefit sharing among central and local government as well as the budget allocation among local levels.

Next, Human resource consider as one of the most significant factors in decentralization. In Laos, many problems such as personnel issues and the number among government official has been increasing year by year. Together with low motivation and incentives, limited skill and so on are still remaining a problem. To answering to these problems, central government should set up the ceiling number of civil servants both central and local administration in order to avoid a huge drain and over of the state budget allocation. Then, civil service management have to be restructured. In these field, this can be sanctioned by revising the allowance and salary scales which related to

professional responsibilities on one hand as well as set the professional government official behavior on the other.

Another concerning, distribution among the number of civil servants should be well managed which based on the classification of each unit within local administration. To be more clearly, the number of civil servant at urban provinces or district with more functions should be higher than rural areas. Normally, the number of civil servant under rural areas is limited due to the poor infrastructure. To dealing with this barrier, central government should offer the incentive more to motivate them by offering the extra payment in the form of bonus and allowance.

In another aspect, there are many factors regarding the efficiency of civil servant, reform more high allowance and variety of monetary as well as training does not claim that the civil servant will perform well in their work. Beside this, there is no display that can measure among civil servants and quality of the work official directly depends on the level of the wages. This kind of motivation formula simplifies the problems of reforming the civil service in Laos until now. Even through, existing compensation and HRM based on the law on civil servant 74/NA, 2015 practices may be adequate for now with the purpose of attracting and motivating civil servant. In another aspects, this tend to a sign of the system will come to under pressure for government in long-term consideration.

One more significant concerning, the training system for civil servant should be considered and developed, mostly at the scale of local administration in Laos. Basically, the skills using in daily work more systematically to dealing with the urgent tasks. They should have equal chance for attending the training both domestic and international; if civil servant have improved by training participation continuously and properly. In systematic, these will allow them to perform their tasks effectiveness. The most significant one, among the training

system, training of trainer is the one of the main components to be sanctioned in the first stage. It means all qualified trainers can be invited from different organizations both public and private sectors. After that, these trained trainers will be able to train their trainees more effectively in line with technical support from each line ministries. So far, these training will be established the success of working procedure if in case of financial management which will support these form the central government is sufficient.

Lastly , as the author draws attention for the form of civil participation as an individual citizen's participation among the process of decentralization formulation at local levels in Lao PDR. However, it seemed that the strong individual citizen's participation is still missing in the past. To corresponding to the situation, the notion of decentralization should be widely disseminated among local levels. The dissemination can be operated through media as well as distribution of materials which related to decentralization. In this regard, media have to be more developed in order to reach all area of the country especially in rural areas such as poorest and

least developed infrastructure. Within these area, they will missed some informed news and social media accessing. The expanding dissemination of policy as local languages would lead to better understanding in relation decentralization policy. Somehow not because of a languages barrier among ethnic group. Additionally, many contribution as well as project and workshop organizing at local levels which the aim to feasible approach for achieving local involvement in decision-making processes. In this concerning, It is not easy to transform the policy application or some areas, they cannot carry out and maintain the project as more effective enough into practical ways.

From the past, local participation only can be operated through direct election of chief of village. Nowadays, the invention of people's council has been established. From this point of view, the voice and role of local levels as

well as local authorities has more expanded and the voice of citizens is expected to be more value with local council.

To conclude, there are many fundamental issues still requiring to further finding on how central government could apply wider decentralization policy approach in order to support with piloting Three Builds Directive policy through the current situation. In order to contribute the public administration and strengthening capacity of local authorities to be more effectiveness in kind of better serving service delivery, poverty reduction and socio-economic development of the country; It means the improvement have to be matched with many aspects as plurality and diversity of public preferences. It means the law must also encapsulate all policies options which from capacity building, research and development, to be more conductive, sound and enduring development aspects. Otherwise, all of these might raise the problematic issues of the appropriate balance between national frameworks to local directions. This study is simply proved that the hindrances for Decentralization in this country were discovered in four dimensions that decentralization can be implemented successfully when these impediments are resolved in different situation, it depend on the background of each country.

### **6.3 Limitation**

To conduct this research, it has been some limitation which encountered by author. All of those thing will be described as bellows:

First of all, there have been absence in many studies which can be employed by the author among the delegation of tasks within central and local government. Mostly, delegation and administrative functions as this research intends to discover. As the most of previous studies are mainly focused on political and financial decentralization in capitalist countries. Therefore, it is quite difficult to figure out in socialist countries. At the same time, the

information which involved the update number and statistic in the field of financial assignment especially in local government were limited and essential information. As a result, some information and documents needed for this research is not easy to access in Lao PDR. Moreover, all documents which issued by government as an official document are written in Lao languages. So, it caused a time consuming over than regular way under this research process.

Another limitation is probably a unique country as administrative matters in Lao PDR. According to the experience and another concepts of application and the factors to be success in the area of decentralization among foreign countries. It seems to be easy applicable to Laos context in short period. Base on the situation under the piloting period in decentralization. Among targeted Ministries, they tried to revise the role and responsibilities through the regulations. So, it means they have to be more consider in applying the administrative function in effectiveness aspects. Among this situation, it might cause the delay process within all ministries through local authorities in the areas of public service interventions and strengthening capacity for better service delivery, poverty eradication and socio-economic development of the country.

Lastly, for doing this research the author applied the qualitative method which focus on the descriptive analysis. In the field of data collecting through survey questionnaire was not fully utilized for this research. The reason was the author believes that sample purposive to get the information among central and local officials who are under the in charge organization do not fully reflect to the whole situation throughout the country as the author had intended to study on. Beside this, to make this research more focused among particular areas will be necessary for further research because of the decentralization implementation in Laos is still on process. At the same time, under the policy implication is surely on debates in the future.



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# APPENDIX 1

## 1) Survey questions

### Interview Guide Questions

1. What do you think about “Three Builds Directive” implementation?  
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2. How do you compare the different of “Three Builds Directive” to the previous period?  
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3. How do you think “Three Build Directive” impacted the performance of local authorities?  
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4. Would you think the framework is matched “Three Builds Directive” implementation?  
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.....
5. Do you think administration capacity, fiscal management, human resource development and civil participation needed in decentralization in Laos? ( Please select the most important one)

6. What are the adjustment that central government have to be consider in relation to the procedure of “Three Builds Directive”?

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7. Would you said that Local authorities are implemented well in the area of “Three Builds Directive” policy? ( which province )

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8. What are the major issues encountered by “Three Builds Directive” policy?

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9. What are the main challenges the government face in “Three Builds Directive” so far?

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10. How “Three Builds Directive” contributes to the development of public administration in Laos PDR?

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## APPENDIX 2

### 2) Profile of interviews:

In this interview guideline, there are 4 keys officials in Lao PDR, who are involved in the “Three Build Directive” implementation in Laos. The lists of interviewee are following:

Organization	Position	Date of interview
Department of Local Administration (MOHA)	Director General ( The former committee of three build directive council, in piloting period )	19 Sep 2018
Department of Local Administration (MOHA)	Deputy Director	19 Sep 2018
Department of Local Administration (MOHA)	Head of division and senior officer ( Three build directive division)	20 Sep 2018
Home Affairs office( provincial level)	Head of office	25 Aug 2018

## APPENDIX 3

### Box 1. History of Decentralization in Lao PDR

*Historically, local governments have enjoyed considerable autonomy in Lao P.D.R. Traditionally, the core political entity was the meuang (or district). Smaller meuangs were nested into regional meuangs, which were led by princes from aristocratic families. Although all the regional meuangs accepted the king of the Lao kingdom as the sovereign, the regional meuangs were extremely powerful.*

*Since the formation of Lao People's Democratic Republic in 1975, all political power has been vested in the Lao People's Revolutionary Party. The Party permeates and controls the government, bureaucracy and the military at both central and provincial levels. In each province, power is vested in the hands of governors, who are Party members and hold ministerial ranks. The central authority is composed of the Party Central Committee, the Government and the Supreme People's Council. Even when the party attempted to establish a centrally planned economy after independence, much of the country was only loosely connected to the center, and the governors used their discretion to adapt central instructions to the local context.*

*In 1986, a "New Economic Mechanism" was introduced, which reflected an overt policy of decentralization and led to substantial devolution of power to the provinces. The central government largely ceded control over the management of resources in the provinces. Provincial tax administrations no longer had direct communications with the central Tax Department in Vientiane. The provincial governments were permitted to conclude trade agreements with bordering foreign states. Even the State bank was decentralized, with branch managers appointed by local authorities, and the banks even set their own exchange rates in each province. By triggering a collapse in government revenues and a large*



*increase in the budget deficit, these reforms led to a period of severe macroeconomic instability.*

*To address these problems, a new Constitution was introduced in 1991 which sought to reassert central control over fiscal management. The new constitution, which laid the foundation for the first national budget, was based on the concept of a unitary “deconcentrated state”. In the deconcentrated system, government policy was to be implemented by administrators appointed in the provinces. However, this attempt to recentralize did little to reduce the authority of the provincial governors, which if anything was strengthened by the abolition of provincial people’s councils, which had been a forum for popular participation in local government.*

*Towards the turn of the century, there was a new move towards decentralization with the adoption of the Prime Ministerial Decree 01 on March 11, 2000. The stated objective of the decree was to “establish provinces as the strategic unit, districts as the budget planning unit and villages as the implementing unit”. The decree was meant to develop a “bottom-up” approach to budget planning, with the center retaining control over budget execution. In practice, many of the most powerful provinces interpreted the decree as a mandate to take on greater responsibility for revenue administration and budget management in their jurisdictions*

*While it has ebbed and flowed, the central government has never had full control over budget operations in the provinces. Thus, while fiscal management is in principle based on a deconcentrated system, the system has in practice always been effectively “decentralized” with provinces having considerable autonomy in the management of their affairs, independent of higher levels of governments.*

*Source: This section is drawn largely from Stuart-Fox (2005), Keuleers (1999) and Villaincourt (2001)*

# 국문초록

## 라오스의 지방분권화:

### 삼상정책이 지방 정부에 미치는 효과성에 대한 사례 연구

Sanida Luangrath

서울대학교 행정대학원

글로벌행정전공

본 논문은 라오스 지방분권제 도입의 효과성을 분석하고자 한다. 라오스는 1986 년 신경제제도(New Economic Mechanism, NEM)를 도입하여 지방분권화 정책을 추진하였다. 지방분권화 정책은 총리 훈령에 따라 발해진 “삼상정책”으로 더 알려져 있다. 삼상정책은 “주를 전략 단위로, 군을 포괄적인 강화 단위로, 그리고 마을을 개발 단위”로 정의하고, 중앙 정부로부터 지방 정부로 사무와 권한을 이양하는 데에 목적이 있다.

본 연구는 삼상정책을 담당하는 부처들이 주, 군, 마을 수준에서 어떠한 역할을 통해 삼상정책의 도입에 기여했는지를 살펴본다. 이를 위해 17 개 주와 1 개 도에서 중앙 정부로 제출한 공문과 업무 보고서를 분석한다. 또 처음 신경제제도를 도입한 1986 년부터 1991 년(1 시기),

재집권화 시기인 1991 년부터 2000 년(2 시기), 지방 분권화 제도의 실험적 도입 시기(2012 년-2014 년)을 포괄하는 2000 년부터 2014 년(3 시기), 그리고 전면적 지방 분권화 시행 시기인 2014 년부터 현재(4 시기)까지의 네 시기로 나누어 살펴본다.

본 논문은 지방 분권화 제도를 구성하는 법제도 및 행정역량, 재무행정, 인적자원개발, 시민 참여의 4 가지 측면을 중심으로 제도 설계의 특성을 분석하고, SWOT 분석을 통해 라오스에 지방 분권화 제도를 도입하는 데 있어 내부환경 및 외부환경 요인을 규정한다.

연구 결과 지방 분권화 제도의 실험 시기에는 긍정적인 변화가 있었다. 하지만 지방 분권화 제도를 전면적으로 시행하여 삼상정책을 안정적으로 정착시키기 위해서는 몇 가지 근본적인 문제점을 해결해야 한다는 점도 드러났다. 즉 효과적인 공공서비스 전달, 빈곤 퇴치, 전국적인 사회경제적 발전을 위해서는 중앙 정부 및 지역 정부의 행정역량을 강화하는 것이 필요하다. 동시에 국가 발전은 다원주의와 다양성에 대한 시민들의 선호를 충족할 수 있어야 하며, 이를 통해 거시적인 국가 발전 틀과 지방의 세부적 지침 간 균형을 이루어야 한다.

본 연구는 라오스에 지방 분권 제도를 도입하는 데 있어 법제도 및 행정역량, 재무행정, 인적자원개발, 시민 참여의 네 가지 측면에서의 장애요소들을 분석했다는 데에 의의가 있다. 또한 장애요소들을 극복함으로써 지방 분권 제도를 성공적으로 정착시키고 있다는 라오스의

사례를 통해 다른 국가들이 지방 분권 제도를 각국의 상황에 적합한  
방식으로 적용하는 데 기여할 수 있을 것이다.

주제어: 라오스의 지방 분권화, 삼상 정책, 지방 정부, 라오스의 지방  
분권제 도입의 효과성 분석, 법제도 및 행정역량, 재무행정,  
인적자원개발, 시민 참여

학 번: 2017-22392

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